

ABSTRACT

Title of Document: WATER, ACTIVISM, AND THE WORLD
BANK: THE DEBATE OVER PRIVATE
SECTOR PARTICIPATION, 1990-2010

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Government and Politics

This dissertation examines the transformation of the World Bank's agenda for private sector participation in urban water and sanitation utilities in developing countries between 1990-2010. I analyze agenda change at the Bank at the level of international policy and through a case study of Uruguay. The case study of Uruguay examines a successful domestic and transnational activist campaign to reform that country's constitution to prohibit private sector involvement in the provision of water and sanitation services.

I find that a pro-privatization agenda institutionalized in the Bank during the 1990s as a result of convergent interests between donor states, the Bank, and transnational corporations was destabilized by a dynamic interplay of external and internal forces in the 2000s. Transnational activist networks, client states, and transnational corporations in retreat comprised the new configuration of external actors constraining the Bank in the 2000s. Tensions internal to the Bank, between its roles as a financial institution and a knowledge producer, and in relation to its neoliberal ideological orientation, have militated against sustained learning as the Bank has confronted the failure of its agenda. I show the Bank to be only a partial

learner, unable to resolve contradictions between its espoused development goals, profit-making imperative, and ideology.

Transnational activists' impact on the Bank occurred primarily through country-level campaigns, not through direct engagement or donor pressure, the main routes through which civil society activists have engaged with the Bank in the past. The case study of Uruguay illustrates the contradiction between ideology and "bottom line" pragmatism within the Bank, as well as the challenges facing activists seeking to construct and implement participatory and equitable models of water service delivery.

WATER, ACTIVISM, AND THE WORLD BANK: THE DEBATE
OVER PRIVATE SECTOR PARTICIPATION, 1990-2010

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Dissertation submitted to the Faculty of the Graduate School of the
University of Maryland, College Park in partial fulfillment
of the requirements for the degree of
Doctor of Philosophy
2011

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Acknowledgements

I owe an incalculable debt to my Chair, Ken Conca, without whose tacit and direct support this dissertation may have never been completed. I took on the dissertation in mid-life as a working professional; Ken stuck with me during the many years it took to reach the finish line. He is a wonderful intellectual interlocutor who combines respect for his students with a concern for social justice and a great sense of humor. I can count on a few digits the number of educators who have similarly inspired me. I thank the other members of my committee for their willingness to serve, especially given my sparse presence on campus the last several years, and for their helpful feedback. I would have been lost without the absolutely indispensable help of the department's graduate student administrator, Ann Marie Clark.

Among the many water activists and water professionals who generously shared their time and experiences with me, I want to particularly thank Sara Grusky, formerly on the staff of Public Citizen and Food and Water Watch. Sara opened doors for me in the "water justice movement" and made the excellent suggestion of using the Uruguayan water campaign as a case study. She might differ with some of my analysis and conclusions, but there are few people whom I hold in as high esteem as Sara for leading a life that "walks the talk."

I am indebted to my office for allowing me the flexibility to take time off to work on the dissertation, and was delighted by the surprise party my co-workers threw me after my defense. I am especially grateful for the love and support of friends and family who stuck by me during some arduous periods, and cheered me on to the end.

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List of Abbreviations and Acronyms

CNDAV	National Commission in Defense of Water and Life (Uruguay)
CR	Constitutional reform
CSO	Civil society organization
DEC	Development Economics group (World Bank)
DFID	Department for International Development
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IDB	Inter-American Development Bank
IFC	International Finance Corporation
IFI	International Financial Institution
IMF	International Monetary Fund
MDB	Multilateral Development Bank
MDGs	Millennium Development Goals
NGO	Non-governmental organization
OSE	Obras Sanitarias del Estado (Uruguay Water and Sanitation Utility)
PPIAF	Public-Private Infrastructure Advisory Facility (World Bank)
PPP	Public-private partnerships
PPPI	Public-private partnerships in infrastructure
PSD	Private sector development
PSIRU	Public Services International Research Unit
PSP	Private sector participation
PUP	Public-public partnership
RPW	Reclaiming Public Water
SAPs	Structural adjustment policies
TAN	Transnational activist network
TNC	Transnational corporation
U.K.	United Kingdom
U.S.	United States
WBG	World Bank Group
WDR	World Development Report
WSS	Water supply and sanitation
WWC	World Water Council
WWF	World Water Forum

Chapter 1: Introduction

For the last two decades the World Bank has promoted market-oriented reforms in the infrastructure sectors of developing countries, including urban water supply and sanitation (WSS).¹ This dissertation seeks to explain how the Bank's agenda for introducing private sector participation (PSP) in water and sanitation changed between 1990-2010, and what accounted for that change. I focus particular attention on the role of transnational activist networks (TANs), acting in support of domestic campaigns, in transforming the Bank's agenda. I find that a pro-privatization agenda institutionalized in the 1990s as a result of convergent interests between donor states, the Bank, and transnational corporations (TNCs) was destabilized in the 2000s by a dynamic interplay of forces internal and external to the Bank, including opposition from TANs.

Infrastructure services, especially WSS, have historically been provided by the state because of a combination of natural monopoly characteristics (economies of scale associated with pipe networks) and the public- or merit-good attributes of the service.² The World Bank has pushed for private sector participation in WSS, rather than full or partial privatization, in recognition of these characteristics. PSP in water and sanitation has been part of the Bank's larger neoliberal development agenda, an extension of the principles and policies underlying the so-called "Washington

¹ Other multilateral and international organizations have been equally strong promoters of market-oriented reforms in infrastructure sectors. These include the International Monetary Fund, regional and bilateral development finance institutions, the Organization for Economic Cooperation and Development, and associations of water private water operators.

² WSS are not pure public goods in that they are neither non-excludable or non-rival. However, WSS has merit good characteristics because of positive health externalities associated with the provision of potable water and basic sanitation, and negative externalities which may result from adverse behavior by individual producers or consumers (such as contamination or pollution).

Consensus” of the 1990s.³ The Bank’s embrace of PSP reflected both sector-specific failures in Bank lending policies during previous decades, as well as the larger ideological framework of structural adjustment policies (SAPs) which guided the IFIs’ approach to development lending during this period. It was fueled by transnational corporations’ drive to penetrate developing country markets, and the demonstration effect of PSP in countries which had privatized some or all of the sector, such as Chile, the United Kingdom, New Zealand, and France. The Bank promoted PSP in the belief that private investors would inject desperately needed investment capital and bring sound management into deteriorating, inefficient, and often corruptly-run urban water utilities in developing countries.

The 1992 “Dublin Statement” which emerged from the International Conference on Water and the Environment and was reaffirmed at the United Nations Conference on Environment and Development, was a turning point in affirming water as an economic good as well as a social or merit good. The “new public management” school of thought, an intellectual relative of public choice and new institutional economics, provided theoretical and ideological support for advocates of PSP. The 1994 World Development Report and the Bank’s 1995 flagship publication, *Bureaucrats in Business*, drew on these conceptual frameworks, and memorialized the full tilt toward PSP for public services. After world leaders adopted the Millennium Development Goals (MDGs) in 2000, the Bank touted PSP as the best

³ The “Washington Consensus” was a term coined by John Williamson in 1989 with respect to prescriptions for reviving growth in Latin America. It referred to a policy mix which prescribed the main elements of structural adjustment and stabilization policies, such as trade and financial liberalization, reordering public expenditure priorities, privatization, deregulation, tax reform, and protecting property rights. See: Williamson, J. 2002. *Did the Washington Consensus Fail?* Washington, D.C.: Institute for International Economics.
<http://www.iie.com/publications/papers/paper.cfm?ResearchID=488> (November 27, 2010).

hope for reaching the target in water and sanitation: halving the proportion of people without sustainable access to safe drinking water and basic sanitation by 2015.

The 1990s were the heyday of PSP, a period during which the Bank fostered the growth of TNCs providing infrastructure services. But this period proved short-lived: total global private sector investment in WSS peaked in 1997 at \$9.97 billion and has declined since, averaging one-third of that for the period 2005-2008, and as low as 15 percent of this total in other years since 2001.⁴ Hopes placed in the private sector as a source for mobilizing finance were dashed, and a sizeable proportion of high-profile PSP projects collapsed. Between 1991 and 2009, 64 Bank projects representing over one-third of total investment in WSS projects with PSP (\$20.8 billion out of \$60.5 billion) were classified by the Bank as either cancelled or in distress.⁵ This 34 percent cancellation and distress rate compares to six percent of PSP projects in energy, three percent in telecommunications, and eight percent in the transportation sector.⁶

A variety of factors have contributed to the sharp decline and reconfiguration of water-related PSP over the last ten to twelve years: financial crises, transnational activist mobilization against privatization, domestic political opposition, TNCs' reassessment of risk, and Bank miscalculations about PSP and the WSS sector. Transnational activism and country-based campaigns against water privatization surged during the first five years of the 21st century across continents and in countries

⁴ The World Bank Group, Private Participation in Infrastructure Database, Sector Data Snapshots, Water and Sewerage. http://ppi.worldbank.org/explore/ppi_exploreSector.aspx?sectorID=4 (March 30, 2010)

⁵ The World Bank Group, Public-Private Infrastructure Advisory Facility (PPIAF), November 2010. Private Participation in Infrastructure Database, "Sector Data Snapshots-Water and Sewerage." http://ppi.worldbank.org/explore/ppi_exploreSector.aspx?sectorID=4 (November 21, 2010)

⁶ The World Bank Group, Public-Private Infrastructure Advisory Facility, November 2010.

at all levels of development. In early 2004, Public Citizen, the leading U.S.-based NGO active in transnational networks against water privatization, chronicled resistance to privatization efforts in 31 countries around the world. Among the highest-profile campaigns were those in Argentina, Bolivia, Ghana, India, the Philippines, South Africa, and Uruguay—the case I analyze in this dissertation.

The Bank's agenda for PSP was performance altered by these external developments as well as by internal reassessment and evaluation. The period 2003-04, centered on the third World Water Forum, represented a turning point in the Bank's public posture towards PSP. The Bank admitted that privatization's virtues had been oversold, declared itself an agnostic on whether infrastructure should be in public or private hands, and unveiled a "second generation" of infrastructure reforms to address a range of acknowledged problems in the Bank's first generation of PSP policies. But the Bank's subsequent ambivalence toward implementing this second generation of reforms, its reactions to a changed external environment, and continued conflicts within the Bank's internal organizational culture, have rendered agenda change an erratic, complex and often contradictory process.

The anti-privatization or "water justice" movement has also had to respond to a changed external environment: the retreat of major TNCs from developing country markets, the corresponding loss of a "framing" target, and the decline in PSP projects financed by the multilateral development banks (MDBs) and bilateral aid agencies. These are the trajectories and processes I examine in this dissertation.

1.1. Research Questions

This dissertation seeks to answer two questions:

- (1) How has the World Bank's agenda for PSP in WSS changed over the last decade?
- (2) What accounts for transformation in that agenda? In particular, what role have transnational activist networks played in this transformation?

I look at these questions at the international level of policymaking and agenda-setting in the World Bank, at the level of transnational activist networking, and through the nexus of international and domestic politics in my case study of Uruguay. The case study of Uruguay examines a successful domestic and transnational activist campaign to reform that country's constitution to prohibit private-sector involvement in the provision of WSS services. I analyze the campaign, the linkages between TANs and the domestic coalition, and the World Bank's role in the WSS sector before and after the constitutional reform in 2004.

To answer the first question I draw on the synthetic theoretical approach of Weaver (2007, 2008) and Miller-Adams (1999), who hold that agenda change in the World Bank is best understood through a lens that combines international relations theory and sociological organization theory. International relations theory helps to explain external influences on the Bank, while sociological organization theory informs an understanding of the Bank's internal culture, norms, bureaucracy, and incentive structures. I present two schematic representations (or descriptive models) to account, respectively, for external and internal influences on change in the Bank's agenda from the 1990s to the 2000s.⁷ The external model examines the influence of four actors in the context of changes in the global political economy: client states,

⁷ These schematic representations are presented in Figures 1 through 4. For simplicity's sake, I refer to these descriptive models simply as "models;" this is not intended to imply generalizable, causal relationships.

donor states, TNCs, and TANs, and identifies the direction and degree of their influence on the Bank. The internal model identifies three components of the Bank's internal organizational culture which are central to explaining agenda change in PSP in tandem with the external actors and variables I identify. These are the Bank's role qua (development) bank, its recognized role as an authoritative knowledge producer, and its dominant ideology of neoliberalism.

1.2. External Influences on the Bank

I argue that neoliberal governments in key donor states, interest by public service TNCs in expanding markets, and pressure on client states to reform each contributed to the realization of the Bank's agenda in WSS during the 1990s. Donor states, especially the United States, were key external actors exerting pressure on the Bank to incorporate private sector development (PSD) into its program and project lending. As Miller-Adams notes, the PSD/PSP agenda was readily institutionalized because this external pressure was aligned with the Bank's internal culture and ideology. Poor client countries, plagued by debt and fiscal crises in the 1980s, were not in a position to resist Bank and IMF policies prescribing austerity and pro-market reforms. Changes in the global political economy favoring market liberalization (e.g., capital mobility and liquidity) enabled multilateral financial institutions to press for WSS sector reforms with client countries through loan conditionalities, and facilitated water TNCs' interest and investment in developing country markets. Middle-income client countries, such as Argentina, supported PSP in the belief that it would

contribute to fiscal stabilization, improve efficiency, and increase investment, growth, and access for residential users.

But by the turn of the 21st century, many transition and middle-income developing countries which had abandoned protectionism and import-substituting industrialization became disillusioned with the unrealized promises of liberalization and market reforms. A number of these countries were afflicted by destabilizing currency and financial crises and had increasingly vocal publics who felt deceived by infrastructure privatizations. Privatization policies became associated with higher utility rates, higher profits for foreign companies, and corruption. “Reform fatigue” had set in, and public support for policies promoting PSP reversed course. In Chapter Four I describe the influence of four actors on the Bank in the changed external environment of the 2000s, with transnational activist networks the new addition to the prior coterie of donor states, client states, and TNCs. Changes in the global political economy strongly conditioned the interests and behavior of these four actors and their relationships to Bank WSS policy outcomes stands in sharp contrast to the vectors of influence a decade earlier. At the same time, changes in interests and behavior, especially for the TANs and the Bank’s client borrowers, reflect a reaction to misguided or failed Bank and IFI policies for PSP in the 1990s. As noted above, TNCs’ interest in developing country markets declined dramatically in the first few years of the new century. This seriously constrained the Bank’s PSP agenda, and was met with redoubled efforts by the Bank to incentivize the private sector to invest, with little effect. Client countries also now constrained the Bank’s agenda: faced with disaffected voters and popular resistance to market reforms, they reduced demand for

loans with PSP and/or pushed backed against loans with such conditionality. The major donor countries with neoliberal governments continued to support and push PSP lending, but their influence mattered less in the face of the other actors' withdrawal from, or rejection of, that agenda.

TANs were the new external force constraining the Bank in the 2000s. I argue that their impact on the Bank was almost entirely indirect yet no less (and perhaps more) effective than it would have been under direct engagement strategies. TANs' effects on the Bank were mediated through support provided to country-level campaigns, which impacted governments (client countries) and water TNCs. The case study of Uruguay that I present is a preeminent example of pressure exerted on the Bank through a vigorous and broad-based country campaign with TAN support. It had the added punch of directly proscribing any PSP lending after the constitutional reform passed. The campaign, in turn, had a strong demonstration effect on subsequent strategizing by TANs and other domestic anti-privatization coalitions, which had an object lesson in the effectiveness of constitutional engineering.

Secondarily, TANs wielded influence via negative publicity generated at international events and networking venues such as the World Water Forum and World Social Forum. The impact of "water justice" TANs on the Bank thus did not occur through the usual channels of NGO or civil society organization (CSO) influence typically recounted in the literature (see Chapter Two). These have involved insider-outsider alliances (pairing internal advocates who can move agendas from within the Bank with external activists) and/or campaigns to pressure donor countries. I argue that the former could not occur given the nature of the issue area:

PSP is an integral component of the Bank’s neoliberal toolkit. For the same reasons, donor-oriented strategies also played only a small role. As I discuss in Chapter Five, direct engagement with the Bank has been minimal in contrast to country-level campaigns, and largely ineffectual. The uneven willingness to engage with the Bank reflected schisms among NGOs and a misalignment in priorities between the Bank and NGOs, even among project-oriented NGOs (such as the U.K.-based WaterAid) which were less adamant in their opposition to all forms of PSP.

1.3. Internal Influences on the Bank

In Chapter Four I put forward a descriptive model of the interactions between three components of the Bank’s internal organizational culture that I hold have been central to understanding agenda change around WSS policies, in dynamic interaction with external influences. As I noted above, these are the Bank’s acclaimed role as a “knowledge bank” or knowledge producer; its role as a profit-making financial institution, and its neoliberal ideological orientation. I argue that conflicts among these elements and different functional or structural imperatives (e.g., a culture which rewards rapid loan approval and disbursement) have rendered the Bank’s agenda for PSP in water contradictory and often at odds with the knowledge produced by experts inside the Bank. A prominent illustration of one such unresolved contradiction is the conflict between the Bank’s interest in churning loans and the “patient loan capital” needed for developing institutional capacity in developing countries—something the Bank repeatedly acknowledges is an essential precondition for effective regulation of both public and private service providers.

Analogously, I find that knowledge production and the Bank's still-dominant neoliberal ideology are in continual tension around the PSP agenda in WSS. I closely analyze a number of high-profile Bank research publications on PSP in WSS and consistently find incongruities between their internal content and their précis or executive summaries. Close readings of these studies reveal that most or all of the advantages the Bank ascribes to PSP over public provision disappear; further, PSP's effects on the poor are typically undocumented, or in several instances, acknowledged to be negative. I argue that conflicts within the Bank's organizational culture and among its competing roles have militated against sustained learning with respect to PSP in WSS. Rather, I find the Bank to be a partial learner, at best, caught in an identity crisis.

My case study of Uruguay confirms this internal model. Loan documents to the WSS sector reveal that the imposition of PSP loan conditions prior to the constitutional reform stemmed more from ideological conviction than from analysis of the public utility's deficiencies. Conversely, the Bank had no problem in continuing its lending to the public sector after the passage of the constitutional reform, and even admitted that the new center-left government was more committed to improving the regulatory framework for the sector.

1.4. Methodology

I employed a case study approach to examine (1) the process of agenda transformation in WSS at the Bank at the level of international policymaking and (2) to analyze the constitutional reform campaign in Uruguay and its effects on the Bank

and the “water justice” movement. Each of these two cases has intrinsic and instrumental characteristics.⁸ There is intrinsic value to understanding agenda transformation inside the world’s largest development finance institution and one of the largest international organizations. At the same time, the specific case of private sector participation in water has instrumental value for understanding other instances of agenda transformation inside the Bank.

The Uruguay case study has intrinsic value because it was a unique example of a successful water activist campaign centered around a strategy of constitutional engineering. The particularities of Uruguay as a small, educated, upper middle-income developing country favored social and political mobilization, rendering it an atypical or “extreme” case. In this respect it is a weak test for generalizing the effects of activist mobilization on agenda change in the Bank. But as an extreme case, it is a strong test of what we can learn about the behavior and influence of TANs and activist domestic coalitions under optimal conditions for political mobilization, and through a successful campaign which had a strong demonstration effect on the water justice movement. The Uruguay case has instrumental value for understanding the challenges facing water justice activists after a successful campaign. It is likewise a strong test of the Bank’s *ex post* reaction to a blanket prohibition on PSP in a country where it had been pushing this strategy through loan conditionalities.

⁸ An intrinsic case study is motivated by a primary interest in exploring the uniqueness of the case itself, rather than to extend theory or generalize across cases. In instrumental case study research, the case facilitates understanding of something other than the case itself, by providing insight into particular issues, facilitating generalizations, or building theory. See *Intrinsic and Instrumental Case Studies*. 2009. In *Encyclopedia of Case Study Research*, <http://proxy-um.researchport.umd.edu/form?qurl+http%3A%2F%2Fwww.credoreference.com/entry/sagecsr/>. (March 4, 2011)

I used a methodology of triangulation to conduct my research through (1) close reading of primary and archival documents, (2) semi-structured and open-ended interviews, and (3) non-participant observation at closed and open meetings and events. For my research on the World Bank I utilized a broad array of official publications and records including scholarly research reports often co-published with academic presses, project loan and country assessment documents, reports published by the independent evaluation arm of the Bank, transcripts of meetings and conferences, and other primary digital media sources. Taken together as a repository of information these sources articulate the policies, standard operating procedures, and external and internal justifications for Bank programs and positions. When reading these documents I paid close attention to backgrounded and foregrounded information, such as divergences between internal content and content highlighted in executive summaries and précis. Certain types of documents, for example, “Implementation and Completion Reports” for project loans, are often mainly targeted at an internal audience and can subtly reveal the Bank’s assessment of its own shortcomings, and/or interesting information about why the project failed to achieve expected outcomes. I interviewed World Bank officials and officials at other development finance institutions to supplement and cross-check information, test out ideas and interpretations, and map relationships among the key actors. I also had access to reliable third-party notes of interviews conducted with former World Bank officials now in academia. I used water-related meetings and conferences which had international participation as venues for engaging in informal conversations with a variety of actors.

My research on transnational activist networks and domestic activist coalitions similarly relied on primary and secondary publications, pamphlets, information provided on internet websites, semi-structured and open-ended interviews, and informal conversations at international and local meetings and events. My relationships with activists in the U.S. water justice movement provided me with contacts in transnational water justice networks and entrée to Uruguayan water activists in the domestic coalition, the National Commission for the Defense of Water and Life (CNDAV). This afforded me direct access to key players and “inside” information while conducting my field research in Uruguay. I conducted interviews with a variety of actors in Uruguay, including government officials in the water sector and with direct experience working with or for the multilateral development banks.

1.5. Findings

1. Strongly institutionalized agendas that evolve as a result of convergent interests between the Bank and its most powerful donor members can be destabilized in short order by a dynamic interplay of external and internal force.

As I have discussed above, the PSD agenda in WSS was institutionalized in the 1990s as a result of convergence between the Bank’s internal culture (neoliberal ideology) and external pressures (donor preferences). That agenda was challenged and derailed by a different constellation of external actors a decade later (or in the case of TNCs, actors whose preferences had changed). It was also undercut by knowledge production inside the Bank (piecemeal, rather than sustained, internal learning) which had to come to terms with the high rate of PSP project failures. This case validates

Weaver's theoretical framework and emphasis on the dynamic and mutually reinforcing influence of external and internal factors on agenda change.

2. The Bank's learning process in this case has been only partial and attenuated.

The Bank learned discrete lessons from failures in PSP contracts and concessions, as I discuss in Chapters Three, Four and Six. Such lessons included, for example, the need for connection subsidies for the poor, a shift to "sustainable cost recovery" from the ideal of "full cost recovery," and above all, the necessity for regulatory institutions. But it cannot translate a substantial part of this learning into practice because of conflicts within its organizational culture, as I noted above. The limits of pro-privatization ideology have been exposed by knowledge production, and knowledge production (i.e., institution-building) has been trumped by profit-making. But profit-making can also trump ideology, as is evidenced by the Uruguay case. It is not clear to what extent the tension between the Bank's loan disbursement and approval cultures can be reconciled with the "patient capital" needed for institution-building.

*3. The case of agenda change in PSP validates the claim that the Bank engages in "paradigm maintenance."*⁹ As I have discussed, the tension between ideology and knowledge production is reflected time and again in close analysis of Bank publications. In my Uruguay case study, contradictions also surfaced in Bank

⁹ Robert Wade coined the phrase the 'art of paradigm maintenance' to characterize the Bank's distorted account of the developmental success of the "East Asian miracle" economies over last two decades of the twentieth century. He and other scholars criticized the Bank for over-emphasizing the role of free markets in the rapid growth trajectory of these countries, while downplaying or ignoring the critical role of interventionist states in promoting that growth. Wade 1996; see also Wade 2002.

rhetoric about the importance of stakeholder participation and accountability, versus its admission (buried in a loan document) that it timed a PSP loan around an election cycle to favor a sympathetic neoliberal administration. It also acknowledged that contract bids and renegotiations were executed in non-transparent fashion, and without public knowledge.

4. *Strengths and Weaknesses of “Water Justice” TANs:* My analysis of the water justice “movement” in Chapters Five and Six reveals both strengths and weaknesses of TANs relative to their espoused goals of ensuring that everyone has access to water as human right and to satisfy basic needs.¹⁰ One of the strengths of TANs has been their horizontal and democratic engagement with domestic campaigns. Transnational activists have defined their roles in terms of supporting domestic movements, and several cross-cutting networks (La Red VIDA and Reclaiming Public Water) pride themselves in their flat and consensus-driven organizational structures. Questions of legitimacy and representativeness are generally not present in the water justice movement.¹¹ Some might argue that this stems from the horizontal nature of many of these links, but in certain country campaigns, TANs have played an essential enabling role—for example, in Ghana. In almost all cases, TANs have had some role in providing financial support to campaigns.

Conversely, as I discuss with respect to the domestic coalition in Uruguay and the Reclaiming Public Water network, the focus on attaining an ideal-type of democratic participation has diverted organizational energy away from the

¹⁰ There may be less consensus around defining “basic needs.”

¹¹ Paul Nelson writes of this in his research on the Bank and NGOs. See literature review, Chapter Two.

fundamental issues of improving access and services for the poor. TANs have generally not made this a priority. In a mirror-image to the Bank, some water justice TANs have also been limited by an anti-privatization ideology. The focus has been on opposition, instead of problem-solving. Parts of the movement have tried to come to terms with this to some degree in the last several years, by reorienting towards an articulation of alternatives to PSP. This is a positive transformation, though at times acceptable alternatives are narrowed to a degree that suggests continued ideological rigidities; the “search for the perfect may be enemy of the good.”

5. The Uruguay case study exemplifies several of the points enumerated above. In addition, the success of the constitutional reform campaign revealed a danger for the domestic coalition: the seduction of international celebrity status. Participation in international events appears to have come at the expense of the more prosaic task of operationalizing the goals of the constitutional reform and improving WSS delivery in the interior of Uruguay. In the post-reform period, the domestic coalition has been caught up in a debate over whether participation in a multistakeholder advisory body on water (created by the government to fulfill one of the requirements of the constitutional reform) would compromise its values as an organization committed to “democracy from below.” At the same time, the coalition admits that its own grassroots base has withered.

1.6. Roadmap for the Dissertation

Chapter Two reviews the literatures addressed in the dissertation. It covers a sample of the literature on transnational activist networks and looks at the literature on TANs and water privatization. It then discusses the literature pertaining to the theory and practice of agenda change at the Bank, including the relationship of client states and civil society actors to the Bank, and the Bank's internal organizational culture. I follow with a discussion of the major works in the extensive political economy literature on private sector participation in urban WSS.

Chapter Three is the first part of a two-chapter analysis of agenda change at the Bank. It presents a critical chronology of change in the World Bank's knowledge production and policies from 1990-2010, the two decades over which there has been a notable shift in the Bank's agenda for PSP. It explores the global political and economic environment which conditioned the Bank's embrace of PSP policies as well as the intellectual foundations articulated in several key Bank research reports. It periodizes and analyzes the Bank's reluctant retreat and two phases of subsequent policy revisionism during the 2000s. It does so, in part, through close reading of several flagship Bank research publications on PSP in water, which expose the contradictions between expert learning and ideology. The first phase of revisionism (circa 2003-04) embodies the Bank's second generation of thinking about infrastructure reform. The most recent phase (circa 2009) captures the Bank in a fundamental contradiction and what I describe in Chapter Four as a "partial learner's identity crisis."

Chapter Four presents the theoretical and empirical foundations for the descriptive models I develop of internal and external influences on agenda change in

the Bank. I analyze and weight the role of external actors and forces that have influenced this change, and do the same for the internal elements of the Bank's organizational culture that I identified above. I conclude by discussing how the external and internal have plausibly interacted to condition this change.

Chapter Five provides an overview of the growth of country-based campaigns and TANs during the first half of the 2000s, followed by a discussion of the characteristics of campaigns, the major campaign actors among TANs and NGOs, and the role of IFIs and TNCs as key campaign targets. It discusses the frames that activists have exploited, created, and deployed to engender collective action. It then looks at the reorientation of the anti-privatization movement in the second half of this decade to a focus on alternatives, specifically "reclaiming public water" through public-public partnerships (PUPs). I discuss the engagement of TANs' and CSOs' with the World Bank, including splits in the "movement" over this strategy. The chapter concludes by analyzing the impacts TANs and CSOs have had on the Bank's agenda for PSP in WSS, mediated by their effects on client states and TNCs.

Chapter Six presents my case study of Uruguay. As discussed above, my case research relied on primary and secondary publications; semi-structured and open-ended interviews with activists, academics and government officials; and non-participant observation at meetings, political rallies, and other events. The chapter is divided into three parts. Part One (sections 6.2 through 6.4) discusses the precipitants of the constitutional reform campaign, its development and protagonists, and the trajectory of the campaign up to the October 2004 victory. It looks at the underpinnings of the constitutional reform strategy in Uruguayans' increasingly

frequent deployment of direct democracy mechanisms to engineer social change. It discusses the coalescence of a cross-section of CSOs into the formation of the domestic coalition, CNDAV, and analyzes the characteristics of the coalition, transnational support, and the strategic development of the campaign between 2002 and 2004. Part Two (section 6.5) returns to the discussion of neoliberal policies in WSS provision between 1992-2004, closely analyzing key World Bank and IDB loan documents, including structural adjustment loans made during the severe economic downturn of 2002-2003. Part Three (sections 6.6 and 6.7) examines developments in the post-constitutional reform period between 2005 and 2009. It looks at fissures on the left, first between CNDAV and the new Frente Amplio government, and then within CNDAV over how to realize the social goals in the constitutional reform, and whether to do so by “participation from above or below.” The penultimate section looks at the reactions of the World Bank and IDB to operating in the new WSS sector environment where PSP is now prohibited. I conclude by looking at the unresolved tensions between CNDAV’s goals as a domestic actor and its celebrity status in the international water justice movement.

Chapter Seven concludes by suggesting several policy implications of my findings, and potential directions for future research. Among these are the necessity for the Bank to squarely confront the conflict between its profit-making imperative and the longer-term framework needed to build regulatory capacity, if it hopes to promote truly “pro-poor regulation,” and that both reflexive pro- and anti-privatization ideologies can divert attention away from the challenge of getting water and sanitation to the poor.

Chapter 2: Explaining Agenda Change in Water Privatization at the World Bank

This chapter provides an overview of the literatures related to World Bank agenda change, privatization of water and sanitation services, and transnational activist networks' engagement with the Bank. I indicate areas in which my dissertation may make particular contributions to these literatures. Apropos and in general, no literature that I am aware of has attempted to account for the totality of external and internal influences that have transformed the World Bank's agenda for privatizing WSS over the last two decades (1990-2010). While there has been a developing literature in the last five-plus years which looks at TAN mobilization against WSS privatization, that literature does not focus on TANs' influence on the Bank, including the failure of direct engagement strategies. There is little, if any, literature which looks critically at the transformation of WSS anti-privatization TANs over the last decade, in partial reaction to the loss of a framing target in TNCs. In addition, no literature has undertaken a detailed analysis of the constitutional reform campaign in Uruguay, focusing on the interactions between domestic coalitions and international TANs, along with impacts on the post-reform relationship between the Bank and the Uruguayan WSS sector.

The first section of this chapter discusses the literature pertaining to the theory and practice of agenda change at the Bank, including the relationship of client states and civil society actors to the Bank, and the Bank's internal organizational culture (knowledge production, ideology, and the Bank's role as a financial institution). The

second section looks at the small literature on transnational activism against water privatization. The third section discusses some of the major works in the extensive political economy literature on private sector participation in urban WSS, as a prologue to the critical discussion in Chapter Three of Bank-produced literature in this area.

2.1. Transforming World Bank Agendas: Theory and Practice

Michelle Miller-Adams and Catherine Weaver examine how agendas are institutionalized and transformed inside the World Bank.¹² They each deploy a synthetic theoretical approach combining international relations theory and sociological organization theory to explain and test agenda change at the Bank over the last two decades, examining several new policy areas of policy. I use this theoretical approach to develop a descriptive model of agenda change in urban WSS which I develop in Chapter Four. Miller-Adams and Weaver posit that international relations theory helps to explain external influences on the Bank, while sociological organization theory informs an understanding of the Bank's internal culture, norms, bureaucracy, and incentive structures. International relations theory, including rationalist-derived principal-agent models, contributes to an understanding of the Bank as a powerful organization influenced especially by the interests of its member states, including major donor and client states. Principal-agent theory helps to explain how the Bank gains autonomy from principals (not just member states but

¹² Miller-Adams, Michelle 1999. *The World Bank: New Agendas in a Changing World*. London and New York: Routledge; Weaver, Catherine. 2008. *Hypocrisy Trap: The World Bank and the Poverty of Reform*. Princeton, NJ: Princeton University Press; Weaver, Catherine. 2007. "The World's Bank and the Bank's World," *Global Governance* 13: 497-500.

also non-state actors which monitor the Bank, such as NGOs), through control over asymmetric information and the excessive cost to principals of monitoring slippage.¹³ However, as a powerful, quasi-autonomous actor, the Bank's behavior cannot be reduced to the interests of its principals, but is as much a function of its own internal culture. Its bureaucratic politics, ideologies, norms, routines, rules, and incentive structures shape staff members' expectations and interactive behavior. Sociological organization theory and constructivist theory help to "unpack the black box" of agents' preferences, rather than assuming them. As Weaver states: "Culture informs staff members' logic of appropriateness and consequence, letting them know how to respond to new tasks or challenges, which formal policies 'really matter,' what behavior will get rewarded or sanctioned in hiring and promotion processes, and what ideas regarding organizational policy and practice may be more readily received."¹⁴ Miller-Adams stresses that we need to look at the "task environment" of the Bank to understand how agendas are incorporated in practice: its customers (developing countries), suppliers (international financial markets), regulators and monitors (NGOs, the Bank's Board, and the development community), and its competitors (bilateral aid agencies, regional MDBs). The Bank seeks to buffer itself from disturbances through growth and cooptation. Although in theory the Bank operates under an apolitical norm embodied in its Articles of Agreement, Miller-Adams calls this as an 'organizational myth.' (I discuss the Bank's role as a knowledge producer below). Change in the Bank's agenda or policies should thus be viewed as an outcome of the interplay of external and internal pressures and influences.

¹³ Weaver 2007.

¹⁴ Weaver 2007, 497-500.

Miller-Adams applied this approach to a comparative analysis of the three new agendas adopted by the Bank in the 1990s, albeit with different degrees of institutionalization: participation, governance, and private sector development (PSD). She argues that the PSD agenda was most thoroughly incorporated because of a congruence of external pressure with internal Bank culture.¹⁵ In contrast, agendas that are not congruent with the Bank's own culture, such as the agenda to increase stakeholder and civil society participation, at a minimum require strong insider-outsider alliances to move forward. The governance agenda emanated from external criticism and the Bank's internal recognition that SAPs for developing countries and "shock therapy" prescriptions for former Communist bloc countries were not leading to the desired results. In the former, budget deficits were slashed without spurring economic growth; in the transition countries, rapid privatization exposed corruption, unaccountable public institutions, and the "wrong" incentive structures for politicians, bureaucrats and business leaders.¹⁶ But both Miller-Adams and Weaver point to contradictions in the Bank's organizational culture which made it very difficult to internalize and mainstream the governance agenda, except by defining it narrowly and as a complement (via the "new institutional economics" and "new public management" theories) to the Bank's neoliberal reform agenda.¹⁷ The very nature of governance projects—their long-term time horizons, smaller loan size, need for more intensive monitoring, challenges in measuring impacts, cross-sectoral scope, and

¹⁵ Although the U.S. brought pressure to bear on the Bank to more rapidly incorporate private sector participation into its policies by linking it to an increase in capital for the International Finance Corporation, the Bank was already predisposed towards adoption of the PSD agenda as a matter of ideological preference.

¹⁶ Weaver 2008.

¹⁷ I discuss "New Public Management" below.

potential for fractious negotiations with resistant client countries—clashes with the Bank’s “disbursement imperative” and “approval culture.”¹⁸

This dissertation intersects with each of these three agendas. While Miller-Adams emphasizes the congruence and easy adoption of the PSD agenda by the Bank, I show how that newly-institutionalized agenda unraveled a decade later in an important arena promoted by the Bank—urban WSS. Weaver’s insights into the internal contradictions exposed by the governance agenda are very applicable to the case of PSP in water. On the one hand, the type of governance advocated by the Bank in this area, regulation and contract rights preponderantly focused on private investors’ needs, fits squarely within the “new public management” paradigm complementing the neoliberal paradigm. On the other hand, the well-functioning, “pro-poor” regulatory institutions needed for both public and private service providers require “patient project capital” that runs headlong against the Bank’s lending culture. Finally, the Bank’s rhetorical commitment to participation has been belied by little effort to compel transparency in contract negotiations between investors and governments, or to require pro-poor participation (as a kind of “social conditionality”) in its past lending for PSP.

The Bank’s Internal Organizational Culture

In Chapter Four I discuss three dimensions of the Bank’s organizational culture that account for change, and resistance to change, in the agenda for PSP in

¹⁸ The “disbursement imperative” refers to the incentives Bank staff face to move loans out the door expeditiously, in line with the Bank’s role as a bank. The “approval culture” similarly refers to getting proposed projects approved within the shortest time-frame, which incentivizes Bank staff to prefer “blueprint” or “cookie-cutter” projects with easily measured inputs and outputs to complex projects, such as those for institutional development.

water and sanitation: (1) the Bank in its role as a major financial institution, (2) the Bank as a preeminent producer of knowledge in the development field, and (3) the Bank's ideological orientation.

(1) The Bank qua "bank"

The World Bank is a mammoth for-profit institution whose fundamental *raison d'être* is to lend money. Cumulative lending and commitments for the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA) stood at close to US\$750 billion at fiscal year (FY) 2010.¹⁹ New IBRD loans and IDA credits totaled \$60 billion in FY 2010. Weaver notes that middle-income countries are the Bank's bread and butter. In borrowing from the IBRD (the "hard loan" window) they underwrite the Bank's primary source of financial autonomy and sustainability, and help fund the activities of the IDA, the concessional or "soft loan" window. Marshall points out that the financial independence of the Bank's operations that involve lending, asset management, and borrowing on the capital markets give it a flexibility and leeway that other development institutions lack.²⁰ Conversely, the financial discipline it imposes on borrowers as a lender generates corresponding rigidities. For example, this discipline made it difficult for the Bank to address the over-indebtedness of poor countries until it was "nudged" to do by global citizens' movements, such as Jubilee 2000, along

¹⁹ The IBRD is known as the "hard loan" window of the World Bank Group, providing loans to creditworthy borrowers at slightly below market interest rates. The IDA, which is the "soft loan," or concessional window of the Bank, provides interest-free credits and grants to the world's poorest and non-creditworthy countries. Loan maturities are longer, with repayment periods stretched over 20-40 years. The largest donors to the most recent IDA replenishment (IDA15) were the United Kingdom, the United States, Japan, Germany, France, Canada, Italy and Spain.

²⁰ Marshall, Katherine. 2008. *The World Bank: From Reconstruction to Development to Equity*. London and New York: Routledge Taylor and Francis.

with the ensuing pressure from the Group of Eight governments. As referenced in the preceding section, the “disbursement imperative” and “approval culture” drives staff behavior in the construction, implementation, and evaluation of Bank programs.²¹ These incentivize Bank staff to favor large bankable projects with quick turnaround in project design and Board approval. To expedite project approval, staff favor projects with easily quantifiable inputs and outputs, which creates a bias towards development activities that can produce certain kinds of results, steering staff away from activities that may not produce immediately tangible results. Weaver notes that ideology and this quantitative bias can affect information gathered and considered during project appraisal and design, while time-consuming, complex social and political risk assessments are often bypassed. Kapur notes that the pressure to lend is a constant within the Bank: “staff are terrified of losing their substantial benefits and (for many) their visa status... and the charge of being an obstructionist can be a convenient cover for the removal by a chief executive of senior managers who have dared voice dissent.”²²

As I discuss in the section below on the relationship between client states and the Bank, another factor affecting the Bank’s behavior in general, and vis-à-vis agenda setting, has been increased competition from private capital markets, which has resulted in a significant decline in demand from the Bank’s middle-income borrowers. Brazil, China and Russia, for example, have turned increasingly towards private lenders, where commercial interest rates have declined, and borrowers can avoid the numerous conditions attached to Bank loans. Weaver notes that the Bank

²¹ Weaver 2007.

²² Kapur, Devesh. 2002. “The Changing Anatomy of Governance of The World Bank.” In *Reinventing the World Bank*, ed. Jonathan Pincus and Jeffrey Winters. Ithaca, N.Y.: Cornell University Press.

has responded by seeking reforms to become more “client-focused,” and is less willing to cede to demands by donor states and NGOs that might alienate middle-income clients.

(2) The Bank as a “Knowledge Bank”

I discuss the Bank’s role as a knowledge producer in Chapter Four. In 1996 World Bank President James Wolfensohn announced that the Bank should become a “*knowledge bank*,” focused as much on disbursing knowledge assets to poor and developing countries as on providing economic support for development projects.²³ Research is an essential input to Bank operations and lending, and is used in the Bank’s advisory services, including policy dialogue with governments, analytical reports (in Bank jargon, “economic and sector work”), and technical assistance.²⁴ The Bank is the largest development research entity: its Development Economics group (DEC) is in charge of 80 percent of the Bank’s research expenditures and the production of the annual *World Development Indicators* and *World Development Report*. DEC is important because it also serves as the main source of research for other MDBs and bilateral aid agencies.²⁵ Neoclassical economists make up the vast majority of research social scientists and senior management within the Bank, a trend reinforced during the 1980s following on debt crises in developing countries, the

²³ Cohen, Don and Bruno Laporte. March 2004. “*The Evolution of the Knowledge Bank*.” *KM (Knowledge Management) Magazine*. Reprinted on the World Bank’s website. <http://siteresources.worldbank.org/WBI/Resources/EvolutionoftheKnowledgeBank.pdf> (December 18, 2010)

²⁴ Dethier, Jean-Jacques. 2007. “Producing Knowledge for Development: Research at the World Bank.” *Global Governance* 13: 469-478.

²⁵ Broad, Robin. August 2006. “Research, Knowledge, and the Art of ‘Paradigm Maintenance’: The World Bank’s Development Economics Vice-Presidency.” *Review of International Political Economy*. 13,3: 387-419.

neoliberal Reagan and Thatcher administrations and the turn to macroeconomic policy reforms and structural adjustment lending.

Pincus notes that part of the Bank's reinvention as a "knowledge bank" was in response to competition from private capital markets, which lowered its comparative advantage as a financial institution. It also reflected Joseph Stiglitz's tenure as chief economist at the Bank; Stiglitz emphasized that development success was predicated on closing the knowledge gap between rich and poor countries, and on building institutions conducive to the spread of knowledge. But Pincus underscores that the Bank has treated knowledge as a neutral, quantifiable commodity, leaving unaddressed the questions of "whose knowledge" and what legitimately constitutes knowledge.²⁶ In other words, the Bank ignores politically uncomfortable issues of access to information, and the power relations that underlie the social construction of knowledge. A 2006 evaluation of Bank research chaired by Princeton economist Angus Deaton and conducted by a team of noted mainstream economists, lauded the Bank for "having done a creditable job of delivering on the many, potentially inconsistent, demands made of [Bank researchers]," and praised the Bank for producing a good deal of high quality work.²⁷ But the evaluation garnered publicity because it also made some notably critical claims about the impartiality and quality of the Bank's work. The evaluators found that in some cases, strong policy positions were not supported by evidence and that the Bank "proselytized selected new work in

²⁶ Pincus, Jonathan R. 2002. "State Simplification and Institution Building in a World Bank-Financed Project." In *Reinventing the World Bank*, ed. Jonathan Pincus and Jeffrey Winters. Ithaca, N.Y.: Cornell University Press.

²⁷ Deaton, Angus, et al. 2006, 80-81. *An Evaluation of World Bank Research, 1998 – 2005*. Washington, D.C.: World Bank Group. <http://siteresources.worldbank.org/DEC/Resources/84797-1109362238001/726454-1164121166494/RESEARCH-EVALUATION-2006-Main-Report.pdf> (December 18, 2010).

major policy speeches and publications without appropriate caveats on its reliability.”²⁸ The panel noted a failure in the checks and balances that should separate advocacy and research.²⁹

(3) Ideology and Paradigm Maintenance

Robert Wade famously coined the phrase the ‘art of paradigm maintenance’ to characterize the Bank’s distorted account of the developmental success of the “East Asian miracle” countries in the last several decades of the twentieth century. He and other scholars criticized the Bank for over-emphasizing the role of free markets in the rapid growth trajectory of these countries, while downplaying or ignoring the critical role of interventionist states in promoting that growth.³⁰ Weaver describes “paradigm maintenance” as “the careful vetting and censorship of prominent Bank publications and public statements by key officials.”³¹ Broad levels the same accusation at the DEC. Following numerous interviews with Bank staff, she concludes that it has played a critical role in the legitimization of the neoliberal free-market paradigm over the last quarter-century, disseminating less than objective research. She identifies several interrelated processes and mechanisms through which the DEC performs its paradigm-maintenance role, and privileges individuals whose work conforms to a neoliberal ideology. These include incentives which increase an individual's chances to be hired, to advance one's career, to be published, to be promoted by the Bank's external affairs department, and, in general, to be assessed positively. She describes

²⁸ Deaton et al. 2006, 38.

²⁹ Dethier 2007, 475.

³⁰ Wade, Robert Hunter. 1996. “Japan, the World Bank, and the Art Of Paradigm Maintenance: The East Asian Miracle in Political Perspective,” *New Left Review*, 217: 3-36.

³¹ Weaver 2007.

these incentives and rewards as unstated and tantamount to “soft law.” They are reinforced through selective enforcement of rules, discouragement of dissonant discourse, and even the manipulation of data to fit the paradigm. With respect to the latter charge, Broad notes that “there is evidence that the Bank crafts, and even manipulates, the executive summaries and press releases of reports so that they reinforce the neoliberal paradigm,” even when at odds with the text of the report.³² I found exactly this discrepancy upon close reading of several key Bank reports on PSP in infrastructure service provision (see Chapters Three and Four).

Stein (2008) and Wade (2002) cite the interests of the U.S. and other major shareholders as an important driver of the Bank’s tenacious adherence to neoliberal policy prescriptions. Wade argues that the U.S. has maintained hegemony in the Bank by pushing a “strategy of enlargement of the world’s free community of market democracies” behind the scenes, in a manner that “maintains the appearance of acting according to the rules decided by the collective of member governments.”³³ He examines two cases which illustrate how the U.S. Treasury applied strong pressure to ensure that a pro-market reform message was not diluted: first by applying pressure to fire the heterodox chief economist, Joseph Stiglitz, and then by undercutting the author of the 2000 World Development Report (WDR) on poverty, Ravi Kanbur. Kanbur’s emphasis on factors other than growth for poverty reduction, and the questions he raised about the sufficiency of, and even causal link between, neoliberal policies and poverty reduction, branded him as an outlier with respect to accepted orthodoxies. Under pressure to de-emphasize distributional and other non-growth

³² Broad 2006, 410.

³³ Wade 2002, 202.

considerations in the WDR, Kanbur resigned. Just as Broad does, Wade notes that the final 2000 WDR contained many inconsistencies within the text, while the stand-alone summaries, press releases, and chapter introductions and conclusions were “scrubbed” to convey the dominant pro-growth message of the U.S. and mainstream Bank staff. Pincus and Winters similarly argue that the U.S. has continually supported the Bank in large part because it is highly centralized and ideologically predictable.³⁴

External Influences on the Bank

(1) The Relationship of Donor and Client States to the Bank

As I discuss in Chapter Four, the Bank is a powerful international organization influenced by external actors, especially by the interests of its member states, including both dominant donor and client states. Five developed country donor states comprise the major shareholders of the Bank and collectively wield 37.38 percent of the voting power of the Bank’s Executive Directors (EDs).³⁵ The largest shareholder member states have their own EDs; smaller shareholders group together and are represented by an elected ED. The United States is the most powerful donor state in the Bank, controlling 16.4 percent of the votes on the IBRD board and 13.4 percent of the votes on the IDA Board. Donor states can directly influence policy change at the Bank through the threat of withholding triennial

³⁴ Pincus and Winters 2002.

³⁵ As of November 2010 the five largest shareholders in the IBRD, by voting power of the EDs, were the United States (16.40 percent), Japan (7.87 percent), Germany (4.49 percent), France (4.31 percent) and the United Kingdom (4.31 percent).
<http://siteresources.worldbank.org/BODINT/Resources/278027-1215524804501/IBRDEdsVotingTable.pdf> (December 18, 2010).

replenishments for the concessional IDA (Miller-Adams; Weaver; Fox and Brown). The U.S. has been most influential in wielding its “power of the purse,” and NGOs have used Congress (which authorizes contributions to the IFIs and approves IDA replenishments) as a lever to push the Executive Branch to exert policy influence over the Bank (see discussion in the next section on NGOs). Marshall cites widespread criticism of the “democracy deficit” in the Bank’s voting system, which weights donors’ votes in relation to their share of contributions and disempowers poor client countries. Marshall, whose primer on the Bank is generally sympathetic, states: “Rarely spoken but fundamental to the debate [about the ‘Imperial Bank’] is concern that IDA’s ability to raise funds stems in significant part from a voting system that ensures that the interests of the financiers are decisive in cases of controversy.”³⁶

At the macro-level, the ability of client/borrower countries to influence Bank agendas and negotiate loan terms will be determined to a large degree by the structural constraints imposed on them as a function of their degree of aid-dependence. David Williams argues that the norm of sovereignty in some of the world’s poorest countries (quasi-states) is being trumped by the IFIs, which not only finance the continued functioning of many governments, but also stand as gatekeepers for other aid flows to these countries.³⁷ The IDA lends to countries not considered creditworthy for loans from the IBRD.³⁸ Almost all African countries rely on IDA funding. Countries without an agreement with the IMF and World Bank are unlikely

³⁶ Marshall 2008, 141.

³⁷ Williams, David. 2000. “Aid and Sovereignty: Quasi-states and the International Financial Institutions.” *Review of International Studies*. 26: 567.

³⁸ Eligibility for IDA support depends on a country’s relative poverty, defined as GNI per capita below an established threshold, which is updated annually (in fiscal year 2011, US\$1,165). As of 2011, 79 countries were eligible for IDA interest-free loans (known as credits), representing 2.5 billion people. <http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/IDA/0,,contentMDK:21206704~menuPK:83991~pagePK:51236175~piPK:437394~theSitePK:73154,00.html> (February 19, 2011)

to receive other bilateral aid flows. Wood argues that conditionality in loan agreements tends to skew government accountability away from the electorate and towards donors, signaling a lack of ownership on the part of the borrower.³⁹ Despite the “partnership” rhetoric adopted by the Bank in the last two decades stressing the importance of client country ownership, Pincus and Winters describe this as the “taxi-cab approach . . . in which the country is in the driver’s seat, but no one is going anywhere until the Bank climbs in back, gives the destination, and pays the fare.”⁴⁰

Nevertheless, Weaver suggests that there are several reasons to see the dependent relationship of client countries on the Bank in reverse—especially for middle-income countries. One form of power available to the Bank’s largest client states is the threat of loan default. In the early 1990s the possibility of default by countries such as Brazil, India, and Indonesia would have put between 11 to 14 percent of the Bank’s portfolio in a nonaccrual status and led to its first annual loss. A second form of influence available to large borrowing countries is an understanding that the Bank thrives according to the volume of loans it makes, giving these countries a source of leverage in negotiating loan conditions. Even with conditions in place, larger clients may choose not to comply, realizing that there are economic and political pressures on Bank staff not to abandon projects mid-stream. A third important source of influence available to creditworthy client states (albeit perhaps dampened by the global financial crisis of 2008) has been the pressure on the Bank from increased competition from private capital markets, as discussed above. Some middle-income countries, such as China, have themselves become lenders and

³⁹ Wood, Angela. 2004. “Conditionality: Past, Present, and Future.” Quoted in *Money Talks: How Aid Conditions Continue to Drive Utility Privatization in Poor Countries*. London, U.K: Action Aid.

⁴⁰ Pincus and Winters 2002, 14.

competitors to the Bank (e.g., in Africa). Critics from the right (e.g., the 2000 Meltzer Commission report) have argued that the Bank crowds out private investment in middle-income countries and should better focus its resources, including increasing grants, on the poorest countries. Defenders of continued Bank lending to middle-income countries argue, *inter alia*, that these countries account for roughly two-thirds of the world's population living under two dollars a day, and are big enough to create systemic risk in global capital markets. De Ferranti accuses critics on the right of failing to appreciate that the Bank enables and complements the private sector by improving the climate for private sector investment.⁴¹

(2) The Relationship of Transnational WSS Corporations to the Bank

Writing before the decline in TNCs' investment during the 2000s, Finger and Allouche argued that the World Bank fostered the growth of "public service" (infrastructure services) TNCs in the 1990s through its privatization policies.⁴² These policies were undergirded by an "instrumentalist logic" linking water scarcity to the necessity for full-cost pricing and the elimination of subsidies, putatively to induce conservation and promote efficiency. Finger and Allouche maintained that the Bank *de facto* promoted a process of concentration and cartelization in the sector. The direct relationship between the IFIs and TNCs is not well explored in the literature, likely because these interactions take place behind closed doors.⁴³ Sklair, Helleiner,

⁴¹ de Ferranti, David. 2005. "The World Bank and the Middle-Income Countries." *Center for Global Development*. <http://www.cgdev.org/content/publications/detail/9957> (December 29, 2010).

⁴² Finger, Matthias and Jeremy Allouche. 2002. *Water Privatization: Transnational Corporations and the Re-regulation of the Water Industry*. London: Spon Press.

⁴³ I am here excluding the IFC and the Bank's Multilateral Investment Guaranty Agency (MIGA) since their *raison d'être* is to work directly with the private sector.

and Martinelli note that firms and TNCs clearly engage in political activities to influence the decisions of intergovernmental and multilateral organizations. Lobina and Hall see the Bank's WSS agenda as having directly followed, to a good degree, the signals and needs of water service TNCs. In contrast, I argue that changes in the Bank's agenda have been conditioned by an array of external actors—including client states, TANs, and TNCs, as well as by factors internal to the Bank's organizational culture.

(3) The Role of NGOs and TANs in Influencing Agenda Change at the Bank

An extensive literature has evolved on transnational civil society, TANs, international NGOs, and transnational social movements which has contributed to understanding how non-state actors influence international policymaking and help to create forms of global governance. It is now widely accepted in the international relations literature that transnational social actors can shape international outcomes by *inter alia*:

- Identifying problematic consequences of globalization that might otherwise be ignored and placing these on the international agenda.⁴⁴
- Building transnational alliances, and mobilizing information strategically to help create new issues and categories; and to persuade, pressure, and gain leverage over much more powerful organizations and governments.⁴⁵

⁴⁴ Brown, L. David, Sanjeev Khagram, Mark H. Moore, and Peter Frumkin. 2000. "Globalization, NGOs, and Multisectoral Relations." In *Governance in a Globalizing World*, edited by Joseph S. Nye and John D. Donahue. Washington, D.C.: Brookings Institution Press; O'Brien, Robert, Anne Marie Goetz, Jan Aart Scholte, and Marc Williams. 2000. *Contesting Global Governance: Multilateral Economic Institutions and Global Social Movements*. Cambridge, UK: Cambridge University Press; Price, Richard. July 2003. "Transnational Civil Society and Advocacy in World Politics." *World Politics*. 55: 579-606.

- Exploiting political opportunities, creating collective identities, and providing resources to domestic movements in formation.⁴⁶
- Articulating new values, ideas, and norms that may become institutionalized in international practice and governance.⁴⁷

Much of the literature discusses the importance of political opportunity structures, resource mobilization, and framing processes to the success of TANs.⁴⁸

Among the critical determinants of TAN influence and success are: target characteristics (e.g., states, transnational corporations, and intergovernmental organizations), changes in the domestic and/or international POS, issue characteristics, and network characteristics (e.g., moral authority, expertise, and the network's claim to representativeness and legitimacy). With respect to issue characteristics, Keck and Sikkink find that TANs have organized most effectively around issues that involve bodily harm to vulnerable individuals, especially concerning equality of opportunity, and where there is a "short and clear causal chain assigning responsibility."⁴⁹ Fox and Brown, and Nelson suggest that it has been difficult to sustain activist mobilization around IMF stabilization policies and World

⁴⁵ Keck and Sikkink 1998.

⁴⁶ Tarrow 1998; Keck and Sikkink 1998; Khagram, Riker and Sikkink 2002.

⁴⁷ Brown, Khagram, et al. 2000; Finnemore and Sikkink 1998; Klotz 1995; Price 2003.

⁴⁸ See McAdam, McCarthy, and Zald.1996. Guidry (2004: 617) describes the "political process/political opportunity structure" as changes in the "larger political relationships of elites, masses, and states" which provide openings for movements to emerge. Tarrow (1998:19) describes political opportunities as consistent, but not permanent, dimensions of the political struggle that encourage people to engage in contentious politics. Changes in both opportunities and constraints provide openings for resource-poor actors. Framing "shapes grievances into broader and more resonant claims" (Snow and Benford 1988, quoted in Tarrow 1998:21). Khagram, Riker, and Sikkink (2002:12) define framing as "the strategic efforts by groups of people to fashion shared understandings of the world and of themselves that legitimate and motivate collective action...Frames define the issues at stake and the strategies for action."

⁴⁹ Keck and Sikkink 1998, 27.

Bank structural adjustment policies (SAPs) because of the complexity of the issues involved.

The most successful campaigns directed at the Bank have involved discrete projects or discrete policies.⁵⁰ Throughout the 1980s and 1990s NGOs mounted a series of campaigns to focus public attention on the damaging environmental and social consequences of large Bank projects. Examples include campaigns against deforestation and displacement of indigenous peoples in Brazil, forced resettlement of thousands of villagers in the wake of the construction of the Narmada Dam in India, and the proposed resettlement of large populations to more sparsely-inhabited islands in the Indonesian archipelago.⁵¹ Moore and Sklar studied NGO influence on the Bank's water resources policy in the context of a specific campaign in the early 1990s which involved direct NGO consultations with the Bank. However, concerns about WSS privatization did not figure prominently in the NGOs' campaign at that time, and unlike the focus of many anti-water privatization TANs today, the campaign's explicit strategy was to gain influence through direct engagement with the Bank (i.e., through an insider-outsider strategy). U.S. NGOs successfully pressured Congress to require changes in the MDBs' environmental policies, but most of the Bank's client members resisted extension of Bank-Government dialogue to NGOs until the late 1980s and early 1990s. While that Bank came to see value in civil society participation as an element contributing to successful project outcomes, it was equally

⁵⁰ Fox and Brown 1998.

⁵¹ Miller-Adams 1999; Khagram, Riker and Sikkink 2002; Fox and Brown 1998.

good at co-opting NGO criticism by paying more attention to already-codified policies and by involving NGOs at earlier stages of the project cycle.⁵²

While NGOs have exerted influence over MDBs' discrete policies and projects, various scholars have noted that campaigns have been less successful in challenging paradigmatic issues such as structural adjustment policies. In 1995 Paul Nelson described NGO efforts targeted against SAPs as "a remarkably unsuccessful decade-long campaign to challenge the legitimacy of the Bank's adjustment program."⁵³ Several reasons were cited for the Bank's intransigence in engaging this issue area.⁵⁴ SAPs, by definition, embody the heart of the Bank's neoliberal development paradigm, and are therefore an issue area where insider allies would be hard to come by (in line with the previous discussion on the Bank's organizational culture and ideology).⁵⁵ However, and probably in at least partial reaction to the adverse publicity generated against the Bank and the IMF by the "Fifty Years is Enough Campaign," the Bank's President Wolfensohn agreed to a tripartite multistakeholder initiative in 1995-96 known as the "Structural Adjustment Participatory Review Initiative" (SAPRI).⁵⁶ But the Bank withdrew from SAPRI in 2001; Peet ascribes this to institutional inertia and external interests (such as the U.S. Treasury) that severely limited the ability of SAPRI to influence Bank policies. Bond

⁵² Miller-Adams 1999, 74-78

⁵³ Nelson 1995, 22.

⁵⁴ Fox and Brown 1998; Nelson 1995, 1996 and 1999; Travis 2000.

⁵⁵ The Bank had also believed it had dislodged the critique of SAPs by redesigning them to include a social safety net component, such as social investment funds and poverty-alleviation programs (Fox and Brown 1998; Nelson 2002).

⁵⁶ The Bank described SAPRI as "aiming to improve understanding about the impacts of adjustment policies as well as about how the participation of local, broad-based CSOs could improve policymaking." (Travis 2000). Seven developing and transition countries participated in SAPRI; the international NGO secretariat claimed that the SAPRI network encompassed at least several hundred CSOs and grassroots organizations. (Peet 2009; Travis 2000).

likens SAPRI to other multistakeholder processes, such as the World Commission on Dams and the Extractive Industries Review in which “well-meaning civil society advocates went inside the Bank.”⁵⁷ In each case, the Bank distanced itself from or disavowed the final policy recommendations that were put forward.

The literature on the relationship of TANs and NGOs to the Bank traces two main routes of influence on the Bank’s agenda: via donor member countries and through insider-outsider alliances with reformist-oriented Bank staff. Using the language of principal-agent theory, Weaver maintains that the “police patrol” and “fire alarm” functions taken on by NGOs and CSOs help to reduce slippage between donors’ interests and the Bank’s, fulfilling a monitoring and whistle-blowing role that states lack the capacity to take on. Although Weaver acknowledges that NGOs have also “called states to account for the apparent errant behavior of the Bank,” I think this conceptualization lends itself, more than is warranted, to a presumption of allied interests between donor states and NGOs.⁵⁸ That alignment of interests has not been prevalent in the case of PSP in water and sanitation.

NGOs exert influence on the Bank’s agenda through pressure on donor member countries’ legislative or executive branches, typically either through the “power of the purse” (appropriations for the IFIs) or through “voice and vote” exercised by donors’ Executive Directors to the Bank’s Board of Directors.⁵⁹ Keck and Sikkink, Weaver, Miller-Adams, Fox and Brown, Udall, and popular NGO

⁵⁷ Bond 2007, 484-485.

⁵⁸ Weaver 2007, 502.

⁵⁹ U.S. legislation contains numerous “voice and vote” directives to the U.S. Executive Directors (U.S. EDs) of the World Bank. Examples include the 1989 “Pelosi Amendment” requiring the U.S. EDs to abstain from votes on projects that would have significant environmental impacts, and the “Frank Amendment,” that requires EDs to oppose projects that do not respect internationally recognized worker rights.

literature (e.g., that of the U.K.-based Bretton Woods Project) discuss various NGO campaigns that exerted pressure on the Bank to reform through legislative strategies that targeted regular donor contributions to the IDA. NGOs have used the three-year replenishment cycle for the IDA as a “political opportunity structure” to leverage policy change at the Bank: successes include opposition to the Narmada Dam in India, pressuring the Bank to adopt an information disclosure policy, and to institute an “Inspection Panel.” Fox and Brown observe that “most major Bank policy reforms were directly associated with the need to respond to donor government debates over IDA contributions.”⁶⁰ Covey points out that one of the major NGO campaigns against IDA replenishment (IDA 10) generated and exposed splits between northern and southern NGOs and networks, with southern NGOs favoring a more moderate position—full replenishment funding, but with conditions.⁶¹ Keck and Sikkink discuss how environmental advocacy networks have levered legislative and Executive branch strategies to pressure the Bank to suspend loans and institute new operational directives on “safeguards” policies. Pressure on the Bank was also used to create a boomerang effect, with the Bank applying pressure on borrower countries.

Fox and Brown and contributors, Miller-Adams, Khagram, and Vetterlein stress the importance of insider-outsider alliances to agenda change. External critics can tip the balance for internal Bank dissidents, empowering them within the institution. Miller-Adams ascribes the incorporation of the “participation agenda” in the Bank to synergies between internal and external advocates. Vetterlein shows how the incorporation of social development policies depended on internal advocates’

⁶⁰ Fox and Brown 1998, 7.

⁶¹ Covey 1998.

strategic use of external pressure. Fox and Brown trace a longer and more complicated route through which civil society typically exerts influence on the Bank, involving both donor country pressure as well as insider-outsider alliances. They argue that the outcomes of interactions between the World Bank and civil societies are mediated by government economic policymakers in donor and borrowing countries. Northern country NGOs and activists pressure donor countries and their respective EDs to the Bank, who support internal Bank reformers, who in turn lend support to reformers in borrowing country governments—who engage in supportive interactions with Southern NGOs.

This dissertation makes a contribution by presenting a case where the influence of TANs and activist coalitions on the Bank did not occur through the typical causal routes identified in the literature above. In addition, and related to the absence of these causal routes, the issue area I study, private provision of WSS, involves a central component of SAPs and fundamental tenet of the Bank's ideology. Neither pressure on donor states, monitoring on their behalf, or insider-outsider alliances with Bank staff were influential in transforming the Bank's agenda for PSP in water. To the contrary, I maintain that activists opposing water privatization and the Bank's PSP agenda found little common ground with powerful donor states in opposing the Bank's PSP agenda, as I discuss in Chapters Four and Five. TANs' influence on Bank agenda change was instead mediated through client countries, private capital (TNCs), and the strategic deployment of international political spaces/events.

2.2. Transnational Activist Networking Against Water Privatization

There is a small scholarly literature which focuses specifically on TANs and civil society organizations opposing WSS privatization. The provenance of some of this literature is with activist researchers or participant-observers, as I note below. Paul Nelson looks at activist mobilization against water privatization through a human rights frame, arguing that these claims are part of a broader trend towards rights-based advocacy in many social justice movements worldwide. He acknowledges, however, that water rights claims have typically been bound together with other themes. These include nationalism and opposition to foreign investment at the local level, and at the international level, a mix of hostility towards TNCs, the IFIs, and the promotion of water as a global public good. Nelson cites public protest or litigation as the reason behind the abandonment or modification of privatization schemes by governments and corporations, with consequent re-evaluation of PSP by the World Bank.⁶² I show activism to be a partial, but incomplete, explanation of the reasons for government and corporate withdrawal from PSP, and the Bank's "re-evaluation" to be erratic, at best. Nelson suggests, but does not elaborate, that framing by many TANs went beyond human rights-based themes to incorporate themes that challenged neoliberalism. I maintain that human rights-based frames were constructed and posed as opposing dyads: pro-rights and anti-commodification. Nelson also notes that national and international advocacy efforts have been dynamic and mutually-supportive but loosely linked. I am in essential agreement on this point, though there are several networks (La Red VIDA, and the Reclaiming Public Water

⁶² Nelson 2009.

Network) which have fostered stronger domestic-international links. Nelson has written critically in the past on the legitimacy and accountability of international TANs which claim to advocate for affected populations and CSOs in the South, but he is silent on this point with respect to the water justice movement.⁶³ I maintain that this has not been an issue in water justice networks, not only because of the generally “looser” relationship of TANs to country campaigns, but also because of a conscious effort on the part of water justice TANs to include southern voices and representation.

Conca discusses how the norms, rules, and practices underlying “water marketization” have been shaped by conflictual politics surrounding privatization and marketization of water.⁶⁴ The anti-privatization movement availed itself of the opportunity structure offered by global multi-issue conferences and events (such as the World Social Forums) to strengthen networks and forge common frames around water as a human right, against its commodification by corporate investors, and against liberalization in the context of trade in services. Hall, Lobina, and de la Motte, academic researchers for the leading public sector trade union federation opposing water privatization (Public Services International, PSI), see opposition to water privatization as rooted fundamentally in concerns over equity and economic issues. This is not surprising given their base of support in trade unions. They stress that resistance to privatization has always originated at the local or national level, never prompted or coordinated by international campaigns. However, this implies that the “organisation of the opposition does not mirror the structure of the policy

⁶³ Nelson 1995, 1999, and 2002.

⁶⁴ Conca 2005, Chapter 7.

makers it is engaging,” as has happened with other “solidarity campaigns” such as those for the abolition of child labor, or against the activities of mining or forestry multinationals.⁶⁵ They note that only in a few instances (e.g., Brazil) has the resistance to privatization and the articulation of coherent alternatives been closely integrated with political parties and the broader political system. My case study of Uruguay provides another example of a link to political parties, albeit of less importance to the success of the campaign in that country than a cohesive coalition of diverse CSOs.

Philipp Terhorst discusses the rise of the “Reclaiming Public Water” (RPW) network as an outgrowth of the alter-globalization movement and an initiative to change water sector policy through “globalization from below.”⁶⁶ He argues that transnational networking, collaboration, and social learning among social movement actors, NGOs, trade unions, and water sector professionals have created a “new dynamic protagonism for the efficiency and equity benefits of public water and sanitation.” This protagonism, however, continues to depend on two other strategic approaches by the water justice movement: recognition of the “human right to water as a public good,” and the continuation of defensive strategies at the local and national levels to defeat privatizations. Terhorst maintains that the RPW network creates a transnational social space “to imagine different paths of development for urban water systems,” and creates a globalized discourse to challenge policy at the global level. I critically examine the RPW network in Chapter Five.

⁶⁵ Hall, David, E. Lobina, and R.de la Motte. June 2005. “Public Resistance to Privatisation in Water and Energy.” *Development in Practice*. 15 (Nos. 3&4):298.

⁶⁶ Terhorst was affiliated with the European NGOs Corporate Europe Observatory and the Transnational Institute as he was working on his dissertation on constructing democratically-controlled alternatives to PSP in Peru and Bolivia.

In addition to the above, anti-privatization campaigns in water and sanitation have been referenced in the context of a larger literature on privatization in different regions and countries; for example, Ruiters and McDonald on southern Africa, and Spronk on Bolivia and Latin America. NGOs active in the anti-privatization and water justice movements have produced many publications for popular consumption describing local campaigns and international support for them (e.g., Corporate Europe Observatory/Transnational Institute, Council of Canadians, Food and Water Watch/Public Citizen, and the World Development Movement).

2.3. The Political Economy of Private Sector Participation in Infrastructure

There is a vast literature on the privatization of state-owned enterprises which was spawned by the push by IFIs and neoliberal governments for reforms in the 1980s and 1990s. Full-fledged privatization involves the direct sale of public assets to the private sector. “Private provision” is a catch-all term that captures an array of institutional arrangements which have been advocated by proponents of private sector participation in urban water and sanitation. These may include contracting-out of specific operations, leasing, and long-term concessions to private operators (see Appendix for a typology of PSP contracts following OECD, 2009). Since the full or even partial transfer of asset ownership in urban WSS has, to my knowledge, never been prescribed as a policy condition of a World Bank loan, I do not review that larger literature here.⁶⁷ However, I briefly reprise some of the key findings in a

⁶⁷ Chile, England, and Wales are rare examples of countries which fully privatized urban WSS in the 1980s and 1990s. As I note in Chapter Three, the privatization of the WSS sector in England and Wales had a keen demonstration effect on Bank officials, convincing them of the viability of PSP in WSS.

recent volume published under the auspices of Columbia University's Initiative for Policy Dialogue (IPD), *Privatization: Successes and Failures*. The IPD volume is illuminating specifically because it contains contributions by several experts who worked for many years on infrastructure privatization at the World Bank.⁶⁸ I then look at the intellectual foundations for the World Bank's embrace of PSP in the 1980s and 1990s and the Bank's role as a leading producer of knowledge on PSP in water and sanitation. I follow this with a discussion of some of the scholarly and expert literature produced outside the Bank, focusing on issues such as the role of water TNCs, regulation, finance, and the merits of public versus private provision.

Former World Bank chief economist Joseph Stiglitz writes in the foreword to the IPD volume that privatization failures arose in natural monopolies, such as infrastructure utilities, when they were privatized before regulatory and antitrust systems were put into place.⁶⁹ According to Stiglitz, some state-owned enterprises (SOEs) have been deservedly criticized for inefficiencies and corruption, but privatization has been pushed by the IFIs even when SOEs have been markedly more efficient than private sector companies (e.g., the state-run steel company in South Korea). Stiglitz observes that one of the driving reasons for privatization has been "simple-minded ideology;" another motivation has been the lure of quick gains for special interests.⁷⁰ The theoretical case for privatization is strongest in areas where market failures and information asymmetries are limited, and these are the sectors in which abuses can be most easily controlled.

⁶⁸ Roland, Gerard. ed. 2008. *Privatization: Successes and Failures*. New York: Columbia University Press.

⁶⁹ Stiglitz, Joseph. 2008. Foreword. In *Privatization: Successes and Failures*, ed. Gerard Roland. New York: Columbia University Press.

⁷⁰ Stiglitz 2008, xi.

In comparing private and public *management*, Stiglitz notes that private firms' higher average profits do not necessarily signify greater efficiency: many public firms in developing countries have faced tighter investment and budget constraints resulting from IMF policy conditions, and under-performance may reflect under-investment. Platz and Schroeder also argue that the constriction of "fiscal space" (room in a government's budget to increase public spending) can exert significant pressure on the use of aid inflows, including expansion of basic services.⁷¹ In Latin America, fiscal consolidation led to a sharp decline in funding for infrastructure services. Moreover, many public firms are entrusted with distributional objectives (e.g., access to clean water for all) and cross-subsidies may not be enough to offset losses from serving low-income individuals.⁷² Privatized firms may have the same principal-agent problems as SOEs because their incentives for maximizing profits are not aligned with governmental or societal goals. Even when governments impose service or investment requirements in concession contracts, private firms may seek to circumvent these. Just as there have been government failures, there are market failures when market and social incentives differ markedly. Stiglitz further maintains that arbitration procedures for investor-state disputes under bilateral investment treaties constitute an additional argument against privatization: the proceedings and rulings fall short of judicial standards expected in modern democracies, there is no appellate process, and no clear system of determining precedents.

⁷¹ Platz, Daniel and Frank Schroeder. September 2007. *Moving Beyond the Privatization Debate: Different Approaches to Financing Water and Electricity in Developing Countries*, Occasional Paper 34/2007. New York: Friedrich Ebert Stiftung.

⁷² Stiglitz 2008, xiv-xv.

Roland notes that the empirical evidence for the superiority of privatized firms is often not convincing because it suffers from selection bias. Privatized firms that are selected for comparison with non-privatized firms may have better performance because their SOE antecedents were more profitable or had the highest potential for profitability.⁷³ In Chapter Three I review one of the Bank’s showcase econometric studies comparing PSP in urban water utilities with SOEs; its lead author specifically touts its superiority over all previous studies because it overcomes this methodological bias.⁷⁴ Nevertheless, as I show through a close reading of this study, the performance superiority of utilities with PSP rests almost entirely on labor force reductions (see Table 1).

John Nellis, another contributor to the IPD volume who worked at the Bank for 16 years managing privatization assistance to client countries, writes that the evidence on privatization in Africa is scant at best, and that infrastructure privatization (with the largest share of SOEs) has lagged the most. The evidence that does exist is mixed, but positive effects are observed only when privatization is associated with enhanced competition and better quality of regulation. There is also evidence of rent-seeking, regulatory capture, reduction in affordability of public services, and job loss—which feeds resentment and increases governments’ reluctance to pursue further privatization reforms. Nellis stresses that this does not imply that the counterfactual, the absence of privatization, would have delivered

⁷³ In addition, Roland notes that governments have frequently kept sizeable residual stakes in privatized firms, so that many privatized firms have, in effect, mixed ownership. Roland 2008, 11.

⁷⁴ K. Gassner, A. Popov, and N. Pushak. 2009. *Does Private Sector Participation Improve Performance in Electricity and Water Distribution?* Trends and Policy Options, No. 6. Washington, D.C.: The World Bank and the Public-Private Infrastructure Advisory Facility. Gassner’s study includes a very large sample of comparator SOEs, which employs a dual estimation strategy involving a second “difference-in-differences” estimation procedure, and which uses “nearest neighbor matching” to find the best comparator sub-samples from the full sample.

better results. But even more than other regions, weaknesses in institutions will attenuate or eliminate expected gains from privatization.

Antonio Estache and Lourdes Trujillo write about the experience of privatization in Latin America: each has particular expertise in infrastructure privatization, and Estache worked for the Bank for 25 years advising governments on public sector reform. In contrast to Africa, infrastructure privatization has been a prominent feature of privatizations in Latin America, precipitated by extreme fiscal strain and the expectation of fiscal payoffs. In terms of regions, Latin America was the highest recipient of private participation in infrastructure between 1984-2004.⁷⁵ Concerns about politically sensitive distributional issues such as access to WSS, electricity, and transport meant that assets were generally leased rather than sold, or contracts took the form of concessions (as in water supply and sanitation, where the private operator is responsible for operations, maintenance, investment in asset replacement, and network expansion). Positive effects of privatization in Latin America generally included investment inflows, increased profitability, and increased productivity which resulted in improved quality in goods and services.⁷⁶ But these effects have been tempered, sometimes severely, by the “really ugly facts” associated with privatization.⁷⁷ The reasons political support for privatization disappeared in Latin America include the following:

(1) Privatization rarely put an end to subsidies or the need for government investment in the sectors concerned. The concern for affordability of public services was “so

⁷⁵ Estache 2006.

⁷⁶ Estache, Antonio and Lourdes Trujillo. 2008. “Privatization in Latin America: The Good, the Ugly, and the Unfair.” In *Privatization: Successes and Failures*, ed. Gerard Roland. New York: Columbia University Press, 154-156.

⁷⁷ Estache and Trujillo 2008, 156.

clearly at the top of politicians' priorities that subsidies for both operating expenditures and capital expenditures" lasted longer or crawled back over time.⁷⁸

(2) Privatization has generated large rents for new owners, but these have not been shared with the general public due to regulatory failure, including regulatory capture; Estache and Trujillo cite the well-known case of water privatization in Cochabamba, Bolivia (see Chapter Five). Estache (2006) notes that while initial tariff rebalancing in infrastructure services was good from an efficiency standpoint, the efficiency gains were "quite regressive," and achieved at the cost of an increase in the burden imposed on the lowest income groups. Few countries organized tariff revisions to pass along gains to users.

(3) Competitive bidding often has not existed. Related to the absence of competition, TNCs were often able to renegotiate contracts after the initial privatization took place. In Latin America, roughly 50 percent of the concession contracts signed since the mid-1980s ended up being renegotiated.⁷⁹

In terms of winners and losers, taxpayers and important user populations (the poor, rural, and suburban users) were hurt by PPI, while international banks benefited, regardless of whether the PPI relationship was "a happy or unhappy one." Private operators had to rely on international banks for long-term financing for concession contracts, and these banks profited from transaction fees more than the lending activity itself—so actually benefited from contract renegotiations. Private operators who were engaged in short-term management contracts and had few investment obligations continued to favor PPIs, while those with concession

⁷⁸ Estache 2006, 12.

⁷⁹ Estache 2006.

contracts, cooled to PPI. In terms of sectors, telecommunications was “the clear winner of the PPI experience,” though it lagged energy and transport in numbers of projects.⁸⁰ The clear loser was the WSS sector; its investment figures were very significantly lower than other infrastructure sectors, with only five percent of total investment commitments generated between 1984 and 2004. As I note in Chapter Four, a top research economist in the Bank acknowledged to me that WSS turned out not to be the most propitious candidate for PSP. It is closer to a natural monopoly than other infrastructure sectors, and even less amenable to “unbundling” for purposes of introducing competition. As I suggest, however, the fact that the Bank resisted this acknowledgement for well over a decade tells us something about the power of neoliberal ideology inside the Bank. Estache concludes that the record for PPI has been quite mixed:

While efficiency levels, quality and access rates have benefited from the reforms, these gains have been achieved at significantly higher fiscal costs and distributional costs than expected. There are thus plausible reasons for tensions between governments, operators and users which may contribute to some of the divorces.... Public-private partnerships in infrastructure may meet sector specialists’ concerns with efficiency, but not the standards of macroeconomists’ concern with fiscal costs of the sector, and with interest groups committed to ensuring that interests of poor are met.⁸¹

Roland summarizes the contributions to the IPD volume by concluding that privatization is uncontroversial in competitive environments, but becomes “increasingly complex in more monopolistic environments where good regulation is easier said than done...Calling for better regulation might be illusory because it would require a major institutional overhaul that is not in the cards in the immediate

⁸⁰ Estache 2006, 19.

⁸¹ Estache 2006, 18.

future.”⁸² As I discuss in Chapters Three and Four, the Bank also finds itself in a conundrum with respect to supporting the development of institutions that it recognizes are essential to the efficient and equitable operation of either public or private utilities. The time horizon needed for regulatory and institutional development conflicts with the Bank’s “disbursement imperative” and loan approval culture. Roland’s pessimistic assessment, it must be said, bodes just as poorly for improving public utilities in developing countries.

Intellectual Foundations of Private Participation in Infrastructure

Several intellectual trends and policy initiatives in the 1980s and 1990s supported arguments advanced by proponents of water sector privatization, including the World Bank. The 1992 “Dublin Statement,” which emerged from International Conference on Water and the Environment and was reaffirmed at the United Nations Conference on Environment and Development was a turning point in affirming water as an economic good as well as a social/merit good.⁸³ WSS are not pure public goods in that they are neither non-excludable or non-rival. However, WSS has merit good characteristics because of positive health externalities associated with the provision of potable water and basic sanitation, and negative externalities which may result from adverse behavior by individual producers or consumers (such as contamination or pollution). Moreover, economies of scale associated with pipe networks make water provision a true natural monopoly, and asymmetries of information between

⁸² Roland 2008, 17-18.

⁸³ Finger and Allouche 2002; Nickson and Franceys 2003.

providers and users also argue for strong regulation in the sector.⁸⁴ The World Bank promoted vertical “unbundling” in the WSS sector as a means of getting around the objection of monopoly power. Unbundling would entail a separation between water production (e.g., bulk water treatment), more amenable to competition *within* the market, versus water carriage and distribution, which because of inherent monopolistic characteristics, would be subject to competition *for* the market—i.e., competitive contract bidding. Nickson and Franceys note that the IFIs arrived at a consensus for reforms in the urban water sector after the two 1992 conferences, as evidenced by policy statements by the Bank in 1993 and the OECD in 1994 (I analyze several foundational Bank documents from the early 1990s in Chapter Three). Two principles were at core of the IFIs’ and OECD’s “consensus:” an *institutional* principle which argued for subsidiarity in water management (devolving water management to the lowest appropriate level and involving users, planners, and policy makers), and an *instrument* principle, which held that water should be recognized as an economic good and water utilities should be treated as commercial enterprises. The strong variant of the “instrument principle” suggested that water should be charged not just on a cost-recovery basis, but also according to its long-run marginal cost of supply to cover new investment as well as operating and maintenance costs. This would imply steep tariff increases in many situations.

The “New Public Management” (NPM) school of thought, an intellectual relative of public choice and new institutional economics, provided theoretical and ideological support for advocates of privatization. Nickson and Franceys characterize

⁸⁴ Nickson and Franceys 2003.

NPM as guiding the second generation of reforms in the Bank, following the first generation of SAPs. SAPs reduced fiscal deficits but failed to improve economic performance for many of the countries which undertook reforms. NPM holds that government's best role is to protect property rights, ensure competition, and regulate firms to protect consumers from market failure. Other than these functions, it should get out of the business of delivering services directly.⁸⁵ NPM proffers several rationales for privatizing basic services such as WSS, especially in cash-strapped developing countries with failing public utilities. Privatization would free up scarce budget resources for governments to spend on poverty alleviation and development initiatives while providing access to capital from the private sector for infrastructure needs. It should improve efficiency and performance, and help to make reforms irreversible, removing them from future political agendas.⁸⁶ Principles drawn from the new institutional economics (NIE) included the use of market and quasi-market mechanisms to stimulate competition between service providers, making public services demand-driven through customer orientation and "citizen charters," and changing employment contracts from career tenured positions to limited-term contracts with performance-based remuneration.⁸⁷ As I discuss in Chapters Three and Four, and as noted in the research cited in the previous section, there is limited or no empirical evidence that NPM and NIE theories were validated through the Bank's reform program for PSP.

⁸⁵ Kessler 2004.

⁸⁶ Kessler 2004, 1-2.

⁸⁷ Nickson and Franceys 2003, 7-10.

World Bank Literature on PSP in Infrastructure and WSS

The Bank is arguably the leading producer of research on private sector participation in infrastructure, including the WSS sector. Research is conducted and published by numerous networks and groups within the Bank, often with the financial support of various donor-financed trust funds. The Water Sector Board, currently located under the Sustainable Development Network, publishes a Discussion Papers, Working Notes, and a Practitioner Notes series.⁸⁸ Discussion Papers are peer-reviewed and present expertise and good practices developed by the Bank's professional staff. Various papers have addressed, *inter alia*, finance, regulation, risk mitigation, and experience with sector reforms. Working Notes are described as "work-in-progress" documents intended to elicit discussion on topical issues from peer professionals, while Practitioner Notes are synopses of larger World Bank documents, reporting key findings. The multi-donor trust funds, such as the Bank-Netherlands Water Partnership Program (now the Water Partnership Program) and the Water and Sanitation Program, have helped to underwrite many of the Water Sector Board's publications.

The Public-Private Infrastructure Advisory Facility (PPIAF), a multidonor technical assistance facility whose goal is to catalyze private sector investment and management in infrastructure, underwrites significant research on PSP.⁸⁹ In 2009,

⁸⁸ Sector Boards develop sector strategies and often work across networks and departments within the Bank.

⁸⁹ PPIAF is a multi-donor technical assistance facility financed by 17 multilateral and bilateral donors. It was created in 1999 with support from Japan and the United Kingdom to catalyze "increased private sector participation in emerging markets...by support[ing] the creation of a sound enabling environment for private service provision." It is governed by a Program Council composed of its donors. An independent technical advisory panel reviews PPIAF activities and provides strategic advice to the Program Council. <http://www.ppiaf.org/ppiaf/page/about-us> (January 23, 2011).

under its flagship publication series, “Trends and Policy Options,” PPIAF published two of the largest studies the Bank has conducted to date on PSP in water and sanitation. Those studies, Philippe Marin’s case study-based review, *Public-Private Partnerships for Urban Water Utilities*, and Katharina Gassner’s econometric study, *Does Private Sector Participation Improve Performance in Electricity and Water Distribution?*, are critically assessed in the next chapter. I show that a close, interior reading of these two reports undercuts their “headliner” synopses trumpeting the Bank’s claims for the continued superiority of PSP in urban water provision. I critically assess another flagship publication on infrastructure reform, *Reforming Infrastructure*, a 2004 report which encapsulated the “second generation” of Bank thinking about PSP.⁹⁰ The Development Economics group in the Bank sponsored and published the research for *Reforming Infrastructure*. As I discuss in the next chapter, *Reforming Infrastructure* reflected a revisionist turn by the Bank, but one that continues to reflect the Bank’s ambivalence towards impartiality in choosing between public and private options.

⁹⁰ Kessides 2004.

Chapter 3: From Panacea Back to Problem, 1990-2010

This chapter presents a critical chronology of change in the World Bank's knowledge production and policies from 1990-2010, the two decades over which there has been a notable shift in the Bank's agenda for PSP. It is the first part of a two-chapter analysis of agenda change at the Bank. In Chapter Four I put forth a model of change rooted in a synthetic theoretical approach which combines international relations and sociological organization theory to account for external and internal influences on the Bank's agenda. Chapter Four draws on the critical exposition presented in this chapter, supplemented by additional analysis and information gleaned in interviews with Bank staff and water experts.

The first section of this chapter examines the decade of the 1990s, the heyday of PSP policies and programs at the Bank. It explores the global political and economic environment which conditioned the Bank's embrace of PSP policies as well as the intellectual foundations articulated in several key Bank research reports. The second section is divided into three parts, periodizing the Bank's reluctant retreat and two phases of subsequent policy revisionism. The first phase (circa 2003-04), discussed, embodies the Bank's second generation of thinking about infrastructure reform. The most recent phase (circa 2009) captures the Bank in a fundamental contradiction and what I describe in Chapter Four as a "partial learner's identity crisis." Despite its professed agnosticism between public and private operation of urban WSS utilities, the Bank continues to advocate for PSP on a tenuous thread while turning back to the oft-maligned public sector with the expectation that it fulfill the role of financier, watchdog, regulator and redistributor.

3.1. PSP as Panacea: The 1990s, a Decade Free of Doubt

The 1990s proved to be the heyday of private sector participation in the WSS sector for the Bank. After the “lost decade” of the 1980s saw a multitude of developing and socialist economies thrust into crippling levels of debt and depression, the 1990s witnessed a turn to market liberalization, privatization, and deregulation. Structural adjustment and stabilization policies prescribed by the IFIs in the 1980s and 1990s pushed debtor countries towards openness, fiscal austerity, and monetary restraint, a brew of policies which came to be known as the “Washington Consensus.”⁹¹ The lackluster performance of import-substituting industrialization and the successful model of developmentalist export-led growth in East Asia⁹² also spurred Southeast Asian and Latin American countries to follow suit and open their economies to international trade and investment.⁹³

The Bank’s full-on embrace of PSP in the water and sanitation sector in the 1990s reflected both sector-specific failures in Bank lending policies during previous decades, as well as the larger ideological framework of SAPs which guided the IFIs’

⁹¹ The “Washington Consensus” was a term coined by John Williamson in 1989 with respect to prescriptions for reviving growth in Latin America. It referred to a policy mix which subsumed the main elements of SAPs and stabilization policies, including trade and financial liberalization, reordering public expenditure priorities, privatization, tax reform, and protecting property rights. See Williamson, J. 2002. *Did the Washington Consensus Fail?* Washington, D.C.: Institute for International Economics). <http://www.iie.com/publications/papers/paper.cfm?ResearchID=488> (November 27, 2010).

⁹² As numerous scholars have argued, and as even the World Bank was forced to acknowledge in the mid-1990s, the “East Asian miracle” was not fueled by export-led growth alone, but as much by a “developmental state” which deployed industrial policies and selective incentives, *inter alia*, and was characterized by a “seamless web of political, bureaucratic, and moneyed interests.” Meredith Woo-Cumings, ed. 1999. *The Developmental State*. Ithaca, New York: Cornell University Press. See also Wade 1992.

⁹³ Frieden, Jeffry. 2006. *Global Capitalism: Its Fall and Rise in the Twentieth Century*. New York: W.W.Norton and Company, 392-434.

approach to development lending during this period. An internal Bank evaluation of the Bank's experience in the WSS sector from 1967-89, known as the *Buky Report*, after its lead author-- criticized project lending in WSS along almost all dimensions of expected outcomes.⁹⁴ It identified shortcomings in low coverage rates, low tariffs (encouraging wasteful water use and inadequate cost recovery), underinvestment, deteriorating infrastructure, overstaffing, inefficient management, and unresponsiveness to the needs of poor.⁹⁵ Beyond the internal acknowledgement of failures in the WSS sector and the global impetus towards market liberalization, the push for PSP was accelerated by the promotion of "Washington Consensus" policy prescriptions, the drive of water TNCs to internationalize, and the demonstration effect of PSP in countries which had privatized some or all of the sector, such as Chile, the U.K., New Zealand, and France. A senior World Bank official in the Bank's "Water Anchor," Philippe Marin, points to the 1989 water privatization in England and Wales as central to convincing policy makers that private financing of urban water utilities could be viable: "This privatization was a momentous event for the industry worldwide, raising massive amounts of private money from international financial markets...many observers expected that such a promising new approach could be replicated on a large scale in the developing world, where a considerable amount of money was needed to fund the investment backlog."⁹⁶ Marin does not

⁹⁴ The World Bank . 1992(c). "Water Supply and Sanitation Projects: The Bank's Experience, 1967-89," [*The Buky Report*]. OED Report No. 10789, World Bank, Washington, D.C. Summary in: OED/IEG, Précis No. 29, June 1, 1992. <http://lnweb90.worldbank.org/oed/oeddoclib.nsf/24cc3bb1f94ae11c85256808006a0046/7e26d3f0c5cb7d7852567f5005d83b6?OpenDocument> (August 22, 2010).

⁹⁵ The World Bank. 1992(c); Bakker, K. "Overview Paper: Recent Trends in PSP, Financing, and Regulation in the Water Sector." April 28, 2009. <http://www.waterdialogues.org/downloads/new/TP-Overview-28-April.doc> (August 29, 2009).

⁹⁶ . Marin 2009, 19.

comment on why “observers” had such high expectations of replicability, given the U.K.’s status as a highly-developed country with the institutional ability to ensure that a special regulatory agency (along with an innovative regulatory mechanism) accompanied privatization. But as Jeffry Frieden points out, Chile’s continuation of market-friendly policies after the democratic election of a civilian government in 1989 led other Latin American countries to look more favorably at the potential of economic integration and PSP.⁹⁷ Enthusiasm for pursuing PSP in water also followed on the massive amounts of private investment in other infrastructure sectors, such as telecoms, electricity and transport.

Richard Franceys, a British academic who has worked for the World Bank and the U.K.’s Department for International Development (DFID), notes that the IFIs exerted leverage on client countries to pursue PSP through direct conditionalities in loans, as well as through IMF policies of fiscal restraint and austerity, which induced central governments to limit subsidies to water utilities.⁹⁸ International market penetration by French transnational water companies Veolia (formerly Vivendi), Ondo (formerly Suez),⁹⁹ and SAUR, was facilitated by the Bank’s endorsement of the Francophone model of PSP for urban WSS in developing countries.¹⁰⁰ Further sanction was given to the Bank’s promotion of commercializing water by the 1992

⁹⁷ Frieden 2006, 425.

⁹⁸ Nickson and Franceys 2003, 52-54.

⁹⁹ Veolia Environnement was founded in 1853 as Compagnie Générale des Eaux, which in 1998, became Vivendi. while Ondo was Société Suez-Lyonnaise des Eaux. SAUR is the Société d’Aménagement Urbain et Rural.

¹⁰⁰ Nickson and Franceys 2003, 53-54. The Francophone model is based on a contractual arrangement between the public sector and the private operator known as *affermage*, which is similar to a lease contract. Under *affermage*, the private operator is responsible for operation and maintenance of the water system, collecting tariffs, and paying a fee to the public sector for leasing the infrastructure assets. Under a lease, this fee is fixed, while under *affermage*, it is proportional to the volume of water sold. Under both leases and *affermage*, the public sector is responsible for financing all investment in the utility.

International Conference on Water and the Environment. Principle Four of the Dublin Statement on Water and Sustainable Development, which was the outcome of that conference, affirmed water as an economic good, which should be managed as such to achieve environmental sustainability, and efficient and equitable use. Finger and Allouche argue that this helped support the Bank's conceptualization of water resources management, where "privatization becomes the [Bank's] answer to environmental concerns."¹⁰¹

PSP in water in the 1990s got its greatest impetus from the process of economic liberalization underway in Latin America. Antonio Estache, Chief Economist for the Sustainable Development (formally Infrastructure) Vice Presidency of the World Bank for over 25 years, attributes Latin America's embrace of private-public partnerships in infrastructure in the late 1980s and 1990s to middle and upper-class voters' fatigue with the rationing of essential public services due to a long succession of fiscal crises.¹⁰² Sector reforms, including PPPIs, were seen as the way out of a downward spiral; 75 percent of Latin Americans supported privatization in 1995.¹⁰³ PPPIs were supposed to contribute to fiscal stabilization, increase investment and growth, improve efficiency, and increase access and affordability for residential users. The fiscal impact of reform was the main expected payoff, through income from the sale, lease or rental of assets, reductions in public sector operational and capital expenditures resulting from the transfer to private operators, and increased

¹⁰¹ Finger and Allouche 2002, 64.

¹⁰² Estache 2006, 3-26. Estache notes that the poor were not a major constituency for reform since most were not connected to networked services.

¹⁰³ Estache 2006, 6.

tax and non-tax revenue.¹⁰⁴ The reforms of the 1980s and 1990s took place in a global environment when the cost of funds was relatively low, yet private capital was still mostly attracted to infrastructure privatizations in telecommunications and energy in richer countries. For the WSS sector, TNCs set their sights on large urban centers that offered the possibility of “cream-skimming.”

The first water PPP of the period was a concession awarded in 1991 for the Argentine provincial utility of Corrientes, to a consortium led by newly-privatized British operator, Thames water. Two years later, a concession was awarded for the Greater Buenos Aires region, with a commitment to invest over four billion dollars over the 30 year contract term—what Marin calls “an unprecedented amount for the water industry in a developing country...which generated considerable momentum” for further PPP investments.¹⁰⁵ A series of PPP contracts for WSS utilities were executed between 1994-97 around the globe, in such countries as Malaysia, Senegal, the Philippines, Colombia, Bolivia, Hungary, and several more in Argentina. The number of developing countries with water PPPs rose from four to thirty-eight between 1991 and 2000, and the population served by private operators rose from six to 93 million. Latin America accounted for 45 percent of the population served by private operators, with Argentina by far the largest market, with over half the urban population served by private operators.¹⁰⁶ Other regions lagged Latin America: 14 million people were served by private water operators in Asia (Manila and Jakarta), 16 million in sub-Saharan Africa, 13 million in Eastern Europe and Central Asia, and 7 million in the Middle East and North Africa. Marin notes that between 1990 and

¹⁰⁴ Estache 2006, 9.

¹⁰⁵ Marin 2009, 21.

¹⁰⁶ Marin 2009, 22.

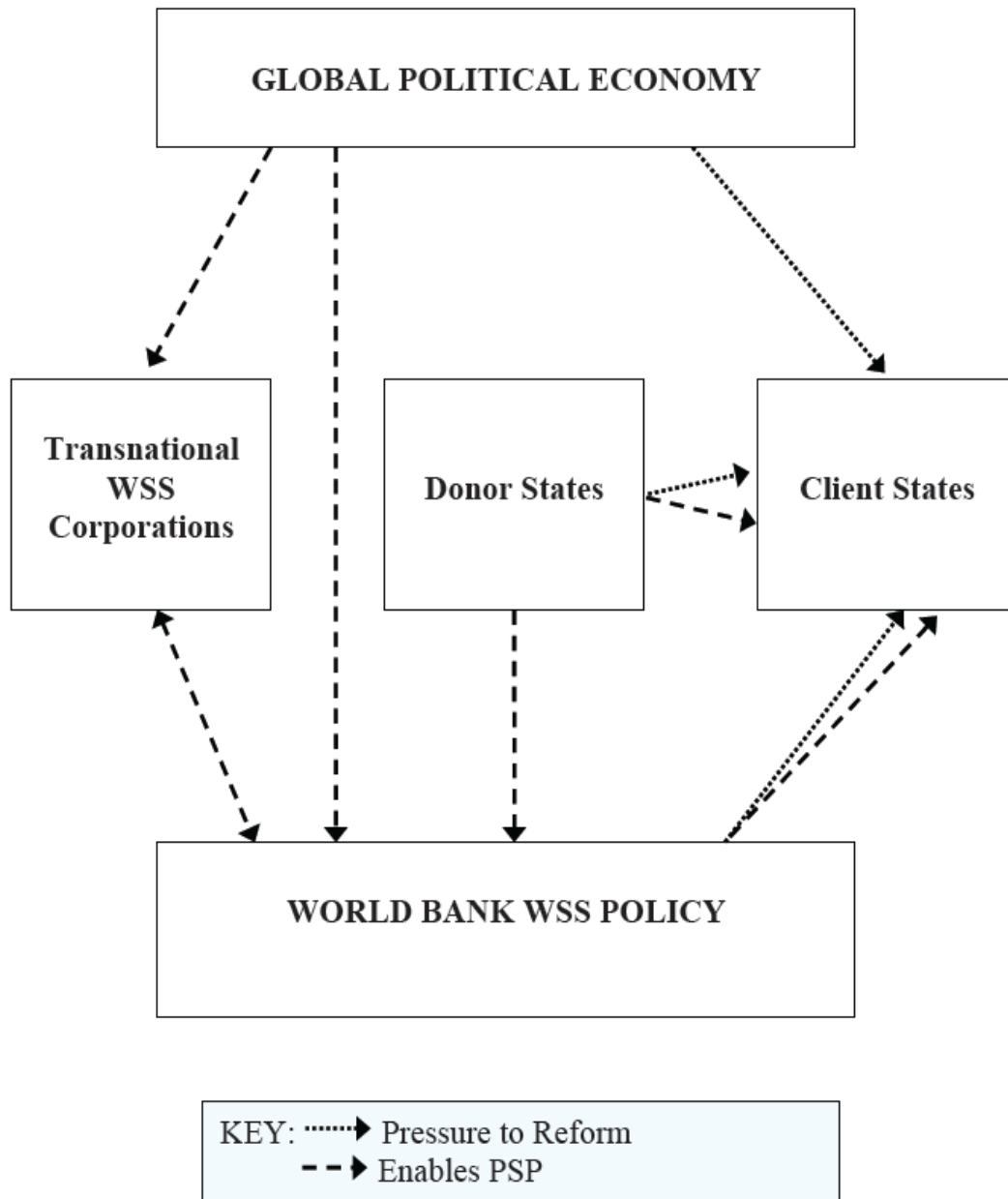
2000, contracts worth over \$43 billion included some form of private participation, where that participation involved an investment commitment on the part of the private sector.¹⁰⁷

Figure 1 provides a schematic model of the *external* influences on the Bank's full-throttle push for PSP in water and sanitation during the 1990s. As described above, changes in the global political economy towards market liberalization and supporting policies enabled multilateral financial institutions to press for sector reforms with client countries through loan conditionalities and facilitated water TNCs' interest and investment in developing country markets. Donor states, especially the U.S., exerted pressure on the Bank to incorporate private sector development (PSD) into its policy work through helping countries develop regulatory and legal frameworks to support privatization and PSP, as well as microenterprise and financial sector development. Since the IBRD and IDA do not lend directly to private entities or engage in private sector transactions, the U.S. applied pressure on these sovereign lending arms of the World Bank Group by linking Congressional funding for a capital increase for the International Finance Corporation (IFC), the private sector loan "window" of the World Bank Group (WBG), to progress on private sector development in the IBRD and IDA.¹⁰⁸

¹⁰⁷ Marin 2009, 22. Marin states that this total, which includes publicly-recorded information included in the World Bank's Private Participation in Infrastructure database, refers to contractual arrangements where the private party has at least a 25percent stake in a concession, or at least five percent of the equity in a divestiture.

¹⁰⁸ Miller-Adams 1999, 43-49.

FIGURE 1
External Influences on Bank Agenda Change in WSS: 1990-2000



But as Michelle Miller-Adams points out, unlike the campaign to change the Bank's approach to environmental issues, U.S. pressure for the PSD agenda involved only minimal effort to seek international consensus. The push did not originate in response to societal demands, but as a matter of ideological preferences, which were unsurprisingly, consonant with those of the Bank. However, the timing and details of the Bank's incorporation of PSD were as much a function of the Bank's own preferences and reflected other external pressures—not simply those from donor countries. Specifically, competition with private capital flows had intensified in the 1990s, threatening to diminish the influence of bilateral and multilateral financial institutions and spurring the Bank to be seen as a cost-effective institution promoting market-friendly policies.¹⁰⁹ Since the Bank faced competition with private lenders for creditworthy middle-income client countries, it sought to create a niche for its expertise in developing the institutional framework to support PSD. Organizational changes inside the Bank, including the establishment of a Vice President for Finance and Private Sector Development, gave PSD increased prominence during the 1990s, as did the new requirement that all Country Assistance Strategies (CAS') address the status of the private sector. Figure 1 thus shows that the enabling conditions for PSP in WSS in the 1990s were bi-directional between the Bank and the transnational private water sector. Depending on the client state, and the inclination of the client borrower to implement sector reforms, the Bank either imposed and/or enabled PSP reforms. The same dynamic infused bilateral development assistance, as indicated by the same pressures exerted by donor states on client borrowers.

¹⁰⁹ Miller-Adams 1999, 53-70.

3.1.2. Knowledge Production Inside the Bank: the Analytical Foundations for PSP in Infrastructure

Three Bank documents from early 1990s provide the intellectual rationale and policy framework for the Bank's promotion of PSP in the water sector: the Operations Evaluation Department's (OED) Buky Report (1992), the 1994 World Development Report, and a report widely-cited as the capstone of the Bank's critique of public ownership and state-owned enterprises, *Bureaucrats in Business* (1995). The Buky Report, produced by the Bank's independent evaluation arm, the OED (today known as the Independent Evaluation Group), provided the analytical backdrop for the switchover to PSP strategies in the sector. Looking at 120 projects over more than two decades, the Report found that all of the projects increased the supply of potable water to urban populations and supported improved living standards for millions of urban dwellers. But these achievements were undercut by the Bank's failure to meet a wide range of expected performance outcomes, including increasing WSS coverage for the poor—an outcome which fell far short of projections. Major failings were identified in the Report in the following areas:¹¹⁰

Financial Viability. The governments of 42 borrower countries—more than three-fourths of the project borrowers—did not comply with the covenants in loan agreements with the Bank concerning pricing and financial performance. Governments often did not provide transfers to water utilities on time in the agreed amounts, and many SOEs failed to pay their bills. The OED noted that: “Financial problems arose most often from failure to improve

¹¹⁰ OED/IEG, Precis No. 29, June 1, 1992.

tariffs and charges that would cover operating and maintenance costs and contribute to new investment... [T]he Bank's promotion of economically efficient pricing conspicuously failed in many countries where large consumers are still subsidized... The Bank seems to have been hesitant and methodologically ill-prepared to promote tariffs and charges that reconciled economic efficiency, social equity, and financial criteria.” Incremental revenues were found to be “well below the economic cost of service.” Notably, 16 of the 30 projects that the OED found in compliance were in just four countries: Botswana, South Korea, Singapore, and Tunisia.

Sectoral Policies and Water Resource Management. The Buky Report criticized the Bank for failing to document whether Bank staff properly identified communities' water and sanitation needs and the best responses to them. The Bank's sectoral strategies, dating from the 1960s, were not updated to address water resources management in an environmentally-sustainable manner, and which balances competing uses of water. The OED implicitly criticized the project lending model, noting that “[T]he time span afforded by one project is generally too short for developing an enabling sectoral framework and building well-staffed, efficient utilities... Repeater projects have a better record of success.”

Institution Building. The Report noted that “Efforts to help strengthen water supply institutions through project lending succeeded rather rarely,” because the Bank did not use its influence, or make systematic recommendations to governments, to secure the autonomy and regulation of WSS authorities. The lack of operational and financial autonomy also resulted in poor management, and the Bank here too failed to use its influence to retain qualified staff.

Water for the Poor. The OED's assessment of the Bank's failure in this area appears quite damning:

- Efforts to provide poor households with water and sanitation were constrained both by project design and by lack of resources.
- The impact of projects on poverty was not well documented. In many cases, project design did not provide adequately for the poor, owing to lack of sufficiently detailed data on the numbers and locations of poor households, and because of political pressure from influential groups to improve their own water and sanitation services..
- Of 89 projects analyzed, only two “demonstrably succeeded in improving conditions for poor households. Another 20 claimed success but offered no means of measuring it, and . another 15 failed. Poverty issues were not addressed in 52 projects (40 percent of these were begun before the Bank's declaration of commitment to poverty relief).

Environmental Protection. Environmental impacts were not well documented, and negative environment impacts resulted from relative inattention to sewerage lending, weaknesses in sector institutions, and increased wastewater volumes which accompanied improvements in water supplies. The 62 projects which increased water supply alone relied on existing sanitation systems, and “in none of the urban areas served were these systems capable of handling associated increases in wastewater volumes.”

Two years after the OED/Buky Report, the Bank devoted its 1994 World Development Report (WDR), *Infrastructure for Development*, to the subject of

improving the “effectiveness of investments and efficiency of service provision” in the infrastructure sector, defined as including public utilities, public works, and the transport sector.¹¹¹ The Bank argued that although developing countries were investing \$200 billion per year in new infrastructure, inefficiencies, waste, redundant staffing, and the absence of the right incentives for providers were contributing to chronic underperformance, likely to be further exacerbated with urban population growth. Four strategies would be needed to change course: commercial management, competition, stakeholder involvement, and a transformation in the roles of governments and the private sector. Henceforth, the dictum would be that infrastructure would need to be “managed like a business, not a bureaucracy,” and that “enabling measures for private entry and market provision should be adopted in the shortest possible time span to ward off opposition.”¹¹² In natural monopoly sectors, competitive bidding and unbundling of potentially-competitive segments could indirectly introduce competition. Governments would have a “continuing, if changed role,” and be responsible for creating policy and regulatory frameworks which safeguarded the interests of the poor, improved environmental conditions, and supported private involvement in the provision of infrastructure services. Users and stakeholders “should be given a strong voice and responsibility...and be represented in the planning and regulation of infrastructure services.” Yet elsewhere in the WDR, the Bank maintains that “Experience argues for keeping regulation to a

¹¹¹ World Bank 1994. *World Development Report 1994. Infrastructure for Development*. Washington, D.C.: World Bank and New York: Oxford University Press.

¹¹² World Bank 1994, 2 and 65.

minimum...and moves toward privatization and PSP need not wait for the formal creation of a comprehensive regulatory framework.”¹¹³

A year after the publication of *Infrastructure for Development*, the Bank published *Bureaucrats in Business: The Economics and Politics of Government Ownership*, its coup de grace in touting the virtues of privatizing SOEs.¹¹⁴ A former department head of the NGO Water Aid, Belinda Calaguas, described this policy research paper as embodying the culmination of Bank ideology advancing privatization during the 1990s. Bayliss and Fine characterized it as representing the “new privatization synthesis” for the Bank, rooted in a theoretical framework incorporating strands from the New Institutional Economics and New Political Economy.¹¹⁵ *Bureaucrats in Business* argues that “large and inefficient SOE sectors have high costs for developing economies, especially the poorest,” and that “reducing the role of bureaucrats in business can bring a country substantial economic gains.”¹¹⁶ Despite more than a decade of divestiture supported by World Bank and other bilateral aid agencies and MDBs, the size of the SOE sector in 1995 had not changed substantially in 20 years. The poorer the country, the larger the size of the sector. The Report argues that SOEs hinder economic growth, absorb a large amount of funds that could be better spent on basic social services, such as health and education, and capture a disproportionate share of credit, squeezing out private sector borrowing. Governments are forced to finance SOEs through transfers, domestic private savings,

¹¹³ World Bank 1994, 2 and 66-68.

¹¹⁴ World Bank. 1995. *Bureaucrats in Business: The Economics and Politics of Government Ownership*. New York: Oxford University Press.

¹¹⁵ Bayliss, Kate and Ben Fine. 1998. “Beyond Bureaucrats in Business: A Critical Review of the World Bank Approach to Privatization and Public Sector Reform,” *Journal of International Development*. 10:7, 841-855.

¹¹⁶ World Bank 1995, 35,46.

or some mix thereof. The larger the SOE sector's overall deficit, the larger the fiscal and current account deficits. In a familiar refrain, bureaucrats face perverse incentives and contradictory demands, while the private sector, sometimes even in monopoly markets, is more efficient.

Using internal Bank data and analysis, the Report examined SOE reform efforts in a non-random sample of 12 low- and middle-income developing countries. Looking at financial performance, productivity, and the savings-investment deficit (the difference between the SOE sector's surplus and investment), it found that only three countries were successful at reform.¹¹⁷ The successes, Chile, Mexico and South Korea, utilized five components of reform that facilitated or incorporated commercial principles: divestiture, competition, hard budgets, financial sector reform, and changes in the institutional relationship between SOEs and government. The Report concluded that the political economy of successful SOE reform was predicated on three enabling conditions: (1) reforms must be politically desirable to leaders and constituencies (which can occur with regime change, coalition shifts, or an economic crisis); (2) they must be politically feasible: leaders must be able to overcome opposition, either by compensating losers or "compelling them to comply, despite their losses," and; (3) they must be credible--to investors, as well as to losers who should be compensated, such as SOE workers.¹¹⁸ It is noteworthy that the Bank is at pains to state that "our data and analysis provide no support for the frequently voiced opinion that SOE reform is more likely in authoritarian regimes...nor is there any

¹¹⁷ The 12 countries included nine "developing market" economies, and three transition economies: Chile, China, Czech Republic, Egypt, Ghana, India, Republic of Korea, Mexico, Philippines, Poland, Senegal and Turkey.

¹¹⁸ World Bank 1995, 31-32.

clear link between democracy and SOE reform.”¹¹⁹ Although denying any link between SOE reform and regime type, the Bank simultaneously points out that for reforms to meet the second and third conditions of feasibility and credibility, the private sector must be confident that policy reversals will not occur: “whether a country has a more or less authoritarian form of government is therefore a strong indicator of feasibility.”¹²⁰ At the same time, the Bank does not shy away from recommending strong measures that exert generalized pressure for reform, particularly for countries not ready to reform their SOEs. In these cases, the Bank recommends macroeconomic reforms, including fiscal and monetary tightening, trade and domestic market liberalization, and other stabilization and structural adjustment policies—which do not directly threaten SOE supporters, but create constituencies which generate pressure for future SOE reform. The Bank advocates compensating losers by eliminating obstacles to private job creation, and de-coupling SOE jobs from the benefits provided with those jobs, through such measures as creating a “commercial housing market or a public health care” system. It offers these prescriptions breezily, with little acknowledgement that such major social policy initiatives are at odds with simultaneous recommendations for fiscal and monetary austerity, and often not achievable in developed countries, let alone developing ones. Further, the Bank expected that developing market economies would in principle, be better candidates for reform. Yet its Europe and Central Asia Department conveniently found that transition economies, such as the Czech Republic and Poland, were “among the more successful reformers... because politically charged

¹¹⁹ World Bank 1995, 32.

¹²⁰ World Bank 1995, 191.

reforms may be easier to push through in the context of widespread, sweeping change than when they are part of a more routine incremental reform process.”¹²¹

Bayliss and Fine characterize *Bureaucrats in Business* as suffering from the “panacea syndrome:” the notion that privatization will itself generate or enhance the appropriate economic and political circumstances required for it to be successful.¹²² They maintain that the Report presents limited evidence in support of the superior performance of the private sector, ignoring contrary evidence. They point out that those countries which successfully reformed SOEs were middle income countries, had the most developed financial sectors, and already had strong state sectors before reform or divestiture took place. In other words, the causal explanation could be precisely the opposite of that posited by the Bank—with a strong state sector and/or common conditions and policies enhancing the performance of the public, financial, and private sectors. This implies that the difference between countries matter more than the ownership conditions within countries. They further note that the telecommunications sector has by far and away dominated infrastructure privatizations in developed countries, by virtue of unique features which do not prevail in other sectors—a consideration which the Bank does not factor into their analysis or prescriptions.¹²³

The Bank’s embrace of PSP during the 1990s, as well the private sector itself, also found an intellectual and institutional home in two international water

¹²¹ World Bank 2001. “Bureaucrats in Business—New World Bank Study on Headaches in Reforming State-owned Enterprises.” *Beyond Transition: The Newsletter About Reforming Economies*. Europe and Central Asia Department, Research.<http://www.worldbank.org/html/prddr/trans/n&d95/bureau.htm>. (February 9, 2010).

¹²² Bayliss and Fine 1998, 842-843.

¹²³ Bayliss and Fine, 851.

organizations established in 1996: the Global Water Partnership (GWP), and the World Water Council (WWC). The WWC, set up as a policy think tank devoted to the study and analysis of global long-term water policy, reinforced the Bank's emphasis on the critical role of the private sector and market mechanisms as the solution for the global water crisis.¹²⁴ Under the WWC's auspices, a comprehensive document known as the *World Water Vision* was unveiled at the Second World Water Forum in The Hague in 2000, to provide forward-looking recommendations on addressing the crisis. Among other recommendations, the *World Water Vision* called for greatly-expanded private sector investment in water and full-cost pricing to promote efficiency and accountability.¹²⁵ The GWP, whose organizational focus was on helping countries and water organizations apply IWRM in the field through technical assistance and capacity building, also envisioned a primary role for the private sector and full-cost pricing.¹²⁶

The World Bank's 1994 World Development Report and *Bureaucrats in Business* represented high-watermark documents memorializing the Bank's full turn towards privatization and PSP for public services such as water and sanitation. The 1990s were the heyday of those policies, a period during which the Bank fostered the growth of TNCs providing infrastructure services.¹²⁷ But this period was short-lived. Total global private sector investment in WSS peaked in 1997 at \$9.97 billion and has declined since, averaging one-third of that for the period 2005-2008, and as

¹²⁴ Finger and Allouche, 2002; Conca, 2005.

¹²⁵ Conca 2005, 152.

¹²⁶ Conca 2005, 154.

¹²⁷ Finger and Allouche 2002(a), 140-142.

low as 15percent of this total in other years since 2001.¹²⁸ The hopes placed in the private sector as a source for mobilizing finance did not materialize, and a sizeable proportion of high-profile PSP projects fell far short of expectations. The Bank's hopes in the panacea of PSP were, ironically, deflated from opposing poles: transnational capital, and transnational activists opposing that capital. The next section looks at the first pole-- how and why the "magical market" solution failed to materialize, and the Bank's evolving reaction to this disappointment.

3.2. No Magic in Markets: Retreat and Revisionism, 2001-2010

3.2.1. The Road to Revisionism: 2001-2003

At the close of the first decade of the 21st century, the Bank's hindsight assessment of the 1990s looked quite different than at the start of the decade: Marin writes:

When compared with other infrastructure sectors, private financing of urban water utilities was limited, representing only 5.4 percent of the total investment commitments in private infrastructure between 1990 and 2000...[five private water companies] represented 90 percent of the total investment commitments during 1991-97. Furthermore, figures on investment commitments were for the total amounts to be invested over the duration of the contracts, and most of the commitments were for a few large projects, with those in Chile, Buenos Aires (Argentina), and Manila (the Philippines) representing nearly half the total amount.¹²⁹

The Argentine financial crisis of 2001-2002 proved to be a turning point for PSP, and highlighted the exposure of foreign investors to currency and contractual

¹²⁸ The World Bank Group, Private Participation in Infrastructure Database, Sector Data Snapshots, Water and Sewerage. http://ppi.worldbank.org/explore/ppi_exploreSector.aspx?sectorID=4 (March 30, 2010)

¹²⁹ Marin 2009, 23.

risk. In 2002, the water TNC Suez wrote off \$500 million in losses in Argentina, which represented over eight percent of its international water business. In December 2002, another flagship concession--Suez's Maynilad subsidiary in the Philippines, announced that it was abandoning the concession and claiming \$303 million in compensation for sunk investments. In a presentation to the World Bank in 2002, the CEO of French water TNC SAUR told the Bank that it would require substantial grants and soft loans to meet required investment levels, and that growth in the water sector in the developing world would depend on soft funding and subsidies.¹³⁰ In January 2003, Suez announced that it would withdraw from those investments in developing countries that did not offer a better risk-to-return ratio and enhanced cash generation. CEO Gérard Mestrallet stated that Suez would reduce its exposure in developing countries by one-third, finance new investments only from cash flow and freeze financing in strong currencies, and with multilateral institutions, "perfect appropriate intervention procedures." If concession-granting authorities and parties failed to adhere to their commitments, it would "prepare to depart."¹³¹

The withdrawal of water TNCs from developing countries coincided with (and was in part precipitated by), a backlash against pro-privatization policies, especially in Latin America. Lora, Panizza, and Quispe-Agnoli cite *Latinobarómetro* public opinion polls showing that pro-market reforms were considered one of the causes of the economic crisis in Latin America in the late 1990s and early 2000s.¹³² In 1998

¹³⁰ Hall 2003.

¹³¹ Quoted in PSIRU 2009. "Thinking Inside the Box," p. 11. (Link to original document broken: http://www.suez.com/documents/english/print_VA_010903.pdf)

¹³² Eduardo Lora, Ugo Panizza, And Myriam Quispe-Agnoli). "Reform Fatigue: Symptoms, Reasons, and Implications," Federal Reserve Bank of Atlanta Economic Review. http://www.frbatlanta.org/filelegacydocs/erq204_lora.pdf (November 12, 2010).

more than 50 percent of Latin Americans thought that privatization was beneficial for their country; that percentage had dropped to 31 percent in 2001 and to 25 percent in 2003. By 2003 the percentage of people who supported a market economy had dropped to 18 percent from 77 percent in 1998.¹³³

At the World Bank Water Week in March 2003, World Bank Director for Energy and Water Jamal Saghir acknowledged this new reality: capital flows to emerging markets had dropped by 40 percent from 1997-2001, the number of strategic investors in WSS had dropped, and those investors were “reconsidering” their portfolios in emerging markets.¹³⁴ Saghir recounted a litany of risks faced by investors in the water sector:

- ♦ currency risk (where debt is dollar-denominated, but earnings are in local currency);
- ♦ Regulatory risk—the risk of the agreed framework not being implemented
- ♦ Payment and performance risk (where governments fail to pay the amounts due)
- ♦ Sub-sovereign risk—since investments are often made at the sub-sovereign level; and
- ♦ Affordability risk—the risk that public investments and subsidies will be necessary to supplement the role played by private operators and consumers.

Saghir then laid out a number of strategies for addressing these key risks which presaged the recommendations contained in the Camdessus Report, unveiled several

¹³³ Lora, Panizza, and Quispe-Agnoli 2004. The authors note that these results come from the Latinobarómetro annual surveys, which have covered seventeen Latin American countries since 1996.

¹³⁴ Saghir 2003. “The Role of the World Bank in a Changing World: Water Supply and Sanitation and Hydropower,” Presentation at World Bank Water Week, March 4, 2003. : http://siteresources.worldbank.org/EXTWAT/Resources/4602122-1213366294492/5106220-1213366309673/0.1Jamal_Saghir_Role_of_WB_In_Changing_Water_World.pdf

weeks later at the Third World Water Forum in Kyoto. These included combining public financing with private, targeting lending and guarantees at the sub-sovereign level, and increasing the use of risk mitigation instruments—such as partial risk guarantees, political risk insurance, and breach of contract coverage. The workshop sessions offered at the 2003 Water Week reflected the less sanguine landscape and prognosis for PSP, with titles such as “Beyond the Public-Private Debate,” “Modes of Public Engagement,” “New Approaches to PSP” and “The Role of Strategic Communication in Water Reform.” All of these appeared under the thematic umbrella: “Water Supply and Sanitation: Not One Size Fits All.”¹³⁵

The challenges of the decline in private finance to the WSS sector were taken up at the Third World Water Forum (3rd WWF) in Kyoto, Japan in March 2003 in The Report of the World Panel on Financing Water Infrastructure, known as the *Camdessus Report*, after its Chairman and former IMF Managing Director Michel Camdessus. The Panel was formed in 2001 as a joint initiative of the GWP, the WWC and 3rd WWF to “address the ways and means of attracting new financial resources to the water field.”¹³⁶ Conca notes that the Panel’s composition lent the Report heft: of the 20 panel members, not counting Chairman Camdessus, four were presidents of the regional multilateral development banks, two were vice-presidents of the World Bank, and two were senior executives from the water TNCs Suez and Thames Water. Only two international NGOs were represented on the Panel (Transparency International and Water Aid). The Report concluded that financial flows would have to at least double if the MDG goals for household water and

¹³⁵ Saghir 2003. Presentation at World Bank Water Week.

¹³⁶ Winpenny 2003. *Financing Water for All*, Report of the World Panel on Financing Water Infrastructure. World Water Council, 3rd World Water Forum, Global Water Partnership.

sanitation were to be reached by 2015. It focused in particular on means to mitigate risk for the private sector including through a “reversal of the traditional financial architecture,” with more funds targeted to the sub-sovereign and local levels, including the development of local capital markets and instruments. The Panel came up with a set of 87 recommendations on how to achieve these goals: the largest set of recommendations dealt with “adapting financial policies and instruments to the needs of the water sector.” Among the chief the recommendations to the IFIs and export-credit agencies were proposals to:

- ♦ Enhance and extend political risk coverage for projects, and relax internal constraints on the use of loan guarantees and insurance—keeping the specific needs of potential private operators in mind
- ♦ Direct finance to the sub-sovereign level, by issuing local currency bonds to promote local capital markets, extending local loan tenors, and encouraging the use of local pension funds.
- ♦ Leverage the private sector, by encouraging banks and other lenders to develop and employ innovative financing techniques such as securitization or collateralization of loan-debt obligations
- ♦ Create a new “Devaluation Liquidity Backstopping Facility” to address devaluations and consequent liquidity crises, which make it difficult or impossible for local water authorities and providers to service foreign debt in local currency. The Facility would effectively guarantee foreign loans and finance the additional debt service incurred from devaluation. The Facility would be paid for by a surcharge levied on end users.

Eleven recommendations in the Report concerned PSP, and what is noteworthy about these recommendations was the new emphasis on *combining* public and private finance—with a now explicit acknowledgement that the former would be critical for mobilizing the latter. The Report recommended that Governments create an enabling environment for PSP, that donors and governments be “open to financing water projects by combining public funds with private financing,” and that sub-sovereign entities “consider the option of retaining assets in public ownership, with continuing public responsibility for investment finance—while operations are privately-managed.”¹³⁷ The recommendations of the Panel with respect to PSP reflect the same double-speak that the Bank was also beginning to adopt during this period: on the one hand, a professed agnosticism as to choice of service provider ownership structure; on the other hand, tenacious in the continued push for private participation. Hence, while one Panel recommendation stresses that the choice between different mixes of public, private and self-help options should be “pragmatic—eschewing ideology,” many more proposals recommend that ODA grants and technical assistance be steered towards helping public authorities build capacity for PPP contracts, tendering, and procurement. At the same time, the Report made concessions to certain realities: while it argued that full cost recovery was the ideal long-term aim, it acknowledged that affordability issues and the need for subsidies argued for “sustainable cost recovery,” which allowed for wide variations in payment capacity. One of the most controversial recommendations in

¹³⁷ Financing Water for All: Panel Recommendations. : <http://financingwaterforall.org/index.php?id=1112&L=0&print=1> (July 28, 2006).

the Report was a call for the IFIs to resume lending in water storage schemes, i.e., dams.

The three sponsors of the Camdessus Report proudly reported that the Report “soon permeated the international community” in the months following the 3rd WWF, with follow-on initiatives by the World Bank Group, the G-8 summit, and the Asian Development Bank.¹³⁸ In a July 2003 internal response to the Report the World Bank agreed to follow up on the Panel’s recommendations on increasing the use of risk mitigation instruments and sub-sovereign instruments, and to scale up technical assistance and lending at the country level. At the same time, it characterized the Report as overly optimistic on the prospects of attracting significant increases in private sector financing, and took exception to the Panel’s recommendation to earmark funds for WSS at the global level. In line with its own institutional structure, the Bank argued that the use of instruments and facilities should be anchored in a country-based framework.¹³⁹

Most activist NGOs were, not surprisingly, critical of the Camdessus Report, which they argued reflected the influence and interests of water TNCs, and which failed to incorporate the views of civil society organizations. Richard Jolly of the Water Supply and Sanitation Collaborative Council (WSSCC), a U.N.-mandated organization which promotes provision of water to the world’s poor characterized the Report as “too much about big bucks, failing to emphasize a need for a change in priorities in the sector.” U.S.-based Public Citizen noted that “civil society was

¹³⁸ *Stakeholders Response to the Camdessus Report*, webpage. Financing Water for All. <http://www.financingwaterforall.org/index.php?id=1108&L=o> (July 28, 2006)

¹³⁹ World Bank. July 14, 2003. *The World Bank Group Response to the Report of the World Panel on Financing Water Infrastructure Chaired by Mr. Michel Camdessus.*

pleased to learn that the Report, which essentially lauds privatization coupled with public subsidies, was not incorporated into the final Forum statement.”¹⁴⁰ The public sector union-backed Public Services International Research Unit (PSIRU) criticized the report for ignoring the risks to countries’ taxpayers and consumers in providing guarantees for private concessions, and for preferring top-down conditionalities to local political decisions on governance issues. However, the large U.K.-based NGO WaterAid had a more nuanced reaction to the Report. WaterAid’s then-president Ravi Narayanan applauded the Report’s endorsement of the need for governments to have predictable revenue frameworks for WSS, and for central governments to provide support to municipalities to cope with increasing urbanization, with the attendant problems of unregistered dwellings and informal settlements. With respect to ensuring predictable revenue streams, WaterAid (as discussed in Chapter Five on activist networks) broke ranks with other activist NGOs on the issue of cost recovery: “No matter how revolting the idea of paying for a basic service, the fact remains that failures in recovering costs for services in the past constitute one of the reasons why current services are so poor and paltry...there is just no getting away from this fact.”¹⁴¹ Nevertheless, Narayanan stressed that tariffs had to be set through socially-negotiated frameworks, with open discourse on subsidy levels for the destitute—and that the Panel had work to do in elaborating the concept of “sustainable cost recovery.” WaterAid also warned that the push for decentralization was saddling sub-sovereigns with new responsibilities, without commensurate resources or authority. It recommended that the IFIs lift the cap on

¹⁴⁰ Bank Information Center. May 6, 2003. “Tuesday Group Report.” Volume VII: Number 6.

¹⁴¹ R. Narayanan. November 19, 2005. *Financing Water Panel Report- Critical Issues to be Addressed*. WaterAid.

government staffing levels, which incapacitates local governments, and hamstrings them in being able to enforce standards on the small local entrepreneurs which serve the poor.

3.2.2. The Second Generation of Infrastructure Reform: 2003-2006

The period before and after the 3rd WWF represented a turning point in the Bank's public posture towards PSP, with the Bank now declaring itself an agnostic on whether infrastructure should be in public or private hands. During the Forum, Bank Vice-President for Sustainable Development Ian Johnson declared the Bank to be ideologically neutral, opposed to a "one-size fits all" approach. A July 2003 Wall Street Journal (WSJ) article titled "The World Bank as Privatization Agnostic" described the Bank, "the apostle of privatization" as "having a crisis of faith."¹⁴² The WSJ wrote:

What seemed like a no-brainer in the 1990s--that developing countries should sell off money-losing state infrastructure to efficient private investors--no longer seems so obvious, especially when it comes to power and water utilities...Investors, who once seemed eager to risk their money on Brazilian power plants or African sewers are pulling back...Consumers, feeling deceived, increasingly associate privatization with higher rates for them and higher profits for foreign companies and corrupt officials. Rate increases have spurred violent demonstrations against a water concession in Bolivia and private power plant projects in Peru....The unexpected turn of events has left privatization enthusiasts at the World Bank--the main tool the wealthy nations have to influence economic policies in the poor ones--wondering what went wrong.

The article quoted Michael Klein, then Vice President for the Private Sector Development Department and Chief Economist at the IFC as saying: "there's

¹⁴² Phillips, M. July 21, 2003. "The World Bank as Privatization Agnostic." *The Wall Street Journal*.

certainly a lot of soul-searching going on.” The “soul-searching” was induced by two opposite ends of the pole—the flight of transnational capital and the fight of transnational activists—as well as by internal learning at the Bank induced by the high rate of project terminations and cancellations. As discussed above, and as revealed in its internal response to the Camdessus Report, the Bank had become considerably less sanguine about the prospects for a significant private sector role

The outcome of this soul-searching—the Bank’s response to this cognitive and political crisis—was a second generation of research and policy on PSP. At the operational level, this was reflected in the April 2004 document *Operational Guidance for World Bank Group Staff: Public and Private Sector Roles in Water Supply and Sanitation Services* (Guidance Note).¹⁴³ The 2004 Guidance Note was a follow-on to the Bank’s July 2003 Infrastructure Action Plan (IAP), which sought to “revitalize” the Bank’s infrastructure business in response to the decline in private sector investment and the fifty percent decline in Bank lending between 1993-2002.

The Note made explicit the Bank’s revived willingness to:

work with well-performing public utilities and those that put in place credible programs to improve performance over time. Such a program would establish a sound overall policy and regulatory framework, address key operational performance issues, and foster the financial sustainability of the utility.

The Bank acknowledged that due to declining private interest in the sector most PPPs would need substantial levels of public funding. It stressed, however, that “financing inefficient utilities that lack a clear reform program will remain a thing of the past,” and that fostering the financial viability of service providers would be paramount.

¹⁴³ World Bank and the Water Supply & Sanitation Sector Board, April 2004. *Operational Guidance for World Bank Group Staff: Public and Private Sector Roles in Water Supply and Sanitation Services*. Washington, D.C.:The World Bank.

While the Note conveys the internal and public message that the Bank is once again open to financing public utilities, it sets high bars for doing so. It directs staff to consider supporting government strategies in the sector only when a “realistic medium-term performance improvement plan” includes virtually the entire list of desired sector reforms: reductions in non-revenue water (NRW), bill collections, staffing levels, tariff levels and structure, subsidy levels and mechanisms, service to the poor, the recovery of operation and maintenance costs, as well as depreciation and financing costs! Less clear is whether the Bank intended to hold governments who involve private providers to the same expectations, or whether it had been applying this threshold of reform results to ongoing PPP projects. With respect to improving the performance of public sector providers the Bank makes clear that its preferred option is the public limited company, where the utility is run as a private business with government authorities as shareholders.¹⁴⁴ Expanding private provision of services is always to be encouraged, even when prices already fully reflect costs. The Guidance Note’s emphasis is directed at governments’ past failures, not at private providers’ failings. Hence, it is governments which “may have to provide stronger commitments to agreed contractual and regulatory frameworks,” including backstopping commitments to risk-sharing thorough loan and political risk guarantees, and taxpayer coverage of foreign exchange risk. The Bank does at least caution that the nature and extent of public support should be evaluated on a case-by-case basis.

¹⁴⁴ World Bank and the Water Supply & Sanitation Sector Board 2004, 7. The Netherlands exemplifies this type of public sector management model.

Perhaps most revealing in the Note is a matrix of possible technical and institutional interventions by the Bank Group. Notwithstanding the Note's professed agnosticism between public and private provision, the matrix is principally organized around identifying which WSS sub-sectors retain appeal for the private sector, which hold little interest, and what government reforms and bank group instruments are necessary to retain private sector involvement. Not surprisingly, the private sector is portrayed as having low interest in rehabilitating or expanding drinking water distribution and access, but greater interest in bulk water supply and treatment facilities which are often financed under less risky "take-or-pay" agreements with governments. Similarly, private sector interest in sewerage provision is confined to middle-income countries and wastewater treatment facilities, and is low with respect to on-site sanitation facilities. The tasks laid out for governments are little short of daunting: getting tariffs right, correctly targeting subsidies to the poor, strengthening the financial capacity and creditworthiness of municipalities, developing domestic financial markets, committing to risk sharing, ensuring coherence in regulatory institutions, etc. While the matrix incorporates several recommendations aligned with the new orientation towards strengthening well-performing public utilities, a majority of recommendations remain geared toward facilitating PSP and favoring the creation of PPPs, including through an "effective communications strategy" by governments.¹⁴⁵

Although the professed new credo of agnosticism seemed to be a bit less than such in the Guidance Note to Bank staff, by June 2004 it was clear that the Bank was

¹⁴⁵ World Bank and the Water Supply & Sanitation Sector Board 2004, 18.

engaged in fundamentally rethinking its infrastructure privatization paradigm. At a June 14, 2004 press conference led by three senior vice presidents from the Development Economics, Infrastructure, and Private Sector Development Departments, the Bank launched a new policy and research report co-published with Oxford University Press: *Reforming Infrastructure: Privatization, Regulation, and Competition* (Reforming Infrastructure). Francois Bourguignon, the Bank's Chief Economist and Senior Vice President for Development Economics, opened the press conference and introduced the major themes of the report. Bourguignon conceded that the experiences of the last two decades in infrastructure privatization reforms had often been very controversial and the subject of intense debate. On the one hand, he defended the Bank's policies in this area, reminding the audience that the pre-reform status quo was that of inefficient SOEs which underpriced services and could not attract financing to expand. On the other hand, the Bank had learned some important lessons from its mistakes over the last two decades. Again he repeated the mantra that there is "no universal reform model." The Bank had learned that regulation was an absolute precondition for PSP in infrastructure, both to attract the private sector and to garner sustainable public support. And Bourguignon crucially admitted that the distributional impact of reforms had often been seen as negative, and that the Bank had lacked the information necessary to assess this impact:

It is an essential condition for success in the future that this weakness be corrected... It is certainly not the case that those reforms can be applied blindly as has been the case at some stages in the past. It is important to make sure that all the tools necessary to assessing the impact of reform are available, and that there is no doctrinal view that will overcome what these tools may bring us as information.¹⁴⁶

¹⁴⁶ World Bank. June 14, 2004. *Press Conference on Reforming Infrastructure*, Press Conference Transcript, News and Broadcasts. :

The author of *Reforming Infrastructure*, Ioannis Kessides, was the lead economist in the Development Economic Department's Research Division. The report covers the Bank's experience in the electricity, telecommunications, transportation, and water supply and sanitation sectors. Kessides writes:

Privatization has been oversold and misunderstood... Just a few years ago, privatization was heralded as an elixir that would rejuvenate lethargic, wasteful infrastructure industries and revitalize stagnating economies. But today, privatization is viewed differently and often critically. Skepticism and outright hostility toward privatization is not limited to a few radical protesters. Opinion polls in several developing and transition economies, especially in Latin America, reveal growing public dissatisfaction with privatization. Public discontent with privatization has been fueled by price increases, job reductions, and high profits of firms.

The report identifies a sweep of mistaken assumptions and policy shortcomings that account for failed reform strategies. The major themes encompass:

- ♦ Ownership Structure: Kessides acknowledges that the structure of ownership is NOT the key variable explaining differences in performance outcomes; rather, it is the existence of strong institutions, which can take decades to evolve—as was the case in East Asia's "miracle" economies: "And the fact that state ownership is flawed, does not mean that privatization is appropriate for all infrastructure activities and all countries."¹⁴⁷ Before state ownership is supplanted by another institutional setup, it will be essential to assess the properties of the proposed alternative, the sector's features, and the country's economic, institutional, social and political characteristics.

<http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:20212636~menuPK:34476~pagePK:34370~piPK:34424~theSitePK:4607,00.html> (June 16, 2004)

¹⁴⁷ Kessides 2004, 7-8.

- ♦ **Competition:** Kessides states that “most analysts now believe that network utilities should be unbundled” as they are no longer seen as exclusively natural monopolies and there is scope to introduce competition in a number of horizontal and vertical segments (e.g., unbundling electricity transmission and distribution from generation). However, he offers strong caveats to this view. Industrialized countries have themselves only recently introduced unbundling in traditional natural monopoly utilities, and this new model poses “significant risks” if not accompanied by structural and regulatory safeguards. In many developing countries, markets are too small for competition to emerge, and these countries lack the very strong institutional capacity necessary for a “mixed system” of competitive and monopoly providers.
- ♦ **Sectoral Characteristics:** In a frank admission that contrasts starkly with a decade of pro-PSP policies by Bank staff working in the water sector, Kessides admits that the natural monopoly character of water supply is so strong that structural unbundling is rare, and there is far less scope for competition than other infrastructure sectors. He states candidly: “The sector’s economic and technological characteristics disallow the possibility of an institutional magic bullet that would significantly increase efficiency. Ultimately designing and sustaining effective water reforms depends on managing the political agenda.”¹⁴⁸
- ♦ **Regulation:** As noted above, the need for effective regulation as a precondition for private sector involvement is a key theme of the report. The discussion of regulation is particularly illustrative of internal contradictions in Bank rhetoric

¹⁴⁸ Kessides 2004, 220-222.

and policy. When discussing the need for strengthening regulatory institutions, the preponderant emphasis in Bank documents and pronouncements had been on doing so for investors—e.g., clarifying property rights, assuring investors that sunk investments won’t be subject to regulatory “opportunism,” guaranteeing revenue streams, and ensuring that contracts will be enforced. Kessides acknowledges that the interests of investors and consumers are often at odds and that “creating regulatory institutions that render decisions legitimate to citizens and credible to investors has proven to be the most vexing problem of every infrastructure reform program.”¹⁴⁹ An effective regulatory regime is a key institutional precondition for privatization to achieve its public interest objectives, yet Kessides notes that none of the regulatory regimes tracked by the Bank had very strong or formal institutional structure in terms of commitment, enforcement, or consumer representation. The best regulatory framework was in Santiago, Chile—which “perhaps ironically, represented state ownership and operation.”¹⁵⁰ Kessides admits that governments will often sidestep transparency, integrity and accountability in constructing regulatory procedures because “their choices are influenced and constrained by external pressures and loan conditions.” And in a statement that is at odds with the oft-repeated Bank screed that investors must be guaranteed regulatory certainty and stability, Kessides states that capture of regulatory agencies by private investors in the water sector has been a greater risk than expropriation.. He allows that it took decades for the U.S. to reach a state of independence of regulatory agencies.

¹⁴⁹ Kessides 2004, 16.

¹⁵⁰ Kessides 2004, 252.

- ♦ **Poverty Reduction and Equity:** A major admission of the report is that PSP may not only fail as a poverty reduction strategy, but that it may have exacerbated poverty and worsened distributional equity. Though public service monopolies failed to achieve universal access, it is not clear that privatization and liberalization will automatically benefit poor households, since the public sector subsidized tariffs, or specific customer or service segments. Kessides states that it would be impossible to maintain significant cross-subsidies in tariffs under privatization and market liberalization. The Bank needs to expand its definition of welfare effects beyond looking at firm profits and industry performance to look at the effects on workers and households at different income levels:

[But] increased efficiency and profitability might come at the expense of workers, customers, and other groups as a result of higher prices, reduced levels and worsened terms of employment, and lower-quality services. These effects must be considered, and this requires systematic household income, expenditure, and employment surveys.

In order for privatization to be sustainable, second generation regulatory reforms have to promote prices that balance efficiency and equity, and find new ways to increase poor people's access to services.

- ♦ **Transparency and Accountability:** Consumer involvement in water regulation and procedural transparency are key to ensuring public acceptance of a PSP reform strategy. But Kessides acknowledges this as a condition rarely met in developing and transition economies: "Indeed, limited public disclosure of key information and contract provisions is common, and advocated by multinational corporations to protect commercial secrets."¹⁵¹ (He cites the example of the

¹⁵¹ Kessides 2004, 251.

Budapest Sewerage Company, where the MNC Vivendi and a German equity holder refused to make documents available to the City Council!)

Reforming Infrastructure represents a kind of *mea culpa* for the Bank on the shortcomings of privatization as well as the intellectual basis for a second generation of policy reforms. It is at the same time a mottled *mea culpa*, flecked with stubborn reversion back to the Bank's neoliberal belief in the superior performance of private operators—even as the report repeatedly delineates the ways in which that performance is contingent on a whole array of preconditions. This tension, which points to fundamental contradictions in Bank policies, was evident during the question and answer session following the press conference. One questioner, for example, agreed with Mr. Kessides that getting institutional and regulatory reforms right often takes decades, yet Bank staff need to show measurable results by the end of the project cycle period. Kessides replied that this anxiety was well placed, but he elided a more detailed response except to say that this was good reason to hold off on assessing how successful a privatization project actually is! When questions along the same lines surfaced later in the press conference, Kessides expounded that “I agree that the policy preconditions that are so indispensable for effective privatization to be implemented and the benefits to fully obtain, are rarely met. So there is a dilemma here: should you delay the process?” And the answer he proffered: “I think that the judgment in many countries that it would be appropriate to proceed with privatization and restructuring even in the absence of institutional and regulatory safeguards...was the right one.” In response to another question on the backlash against privatization in Peru, Vice-President for Private Sector Development and

Chief IFC Economist Michael Klein responded by pointing out that support for privatization in Latin America depended on how pollsters posed the question. He said that the Latino Barometer poll which showed only 21 percent of Peruvians supporting privatization when the question was framed as “Do you like privatization or not?” generated a much more favorable response when the questions were framed as: “Would you appreciate privatization if regulation were well done, if investment came to improve [sic], if a transparent procurement process were used, if decisions were made by regulators in transparent ways?” When the questions were thus posed (lo and behold) two-thirds of the population in Peru said they would support privatization under those conditions. Concludes Mr. Klein, quite ingenuously, “the question then is, how can a government put in place those conditions?”—as though this were a simple matter of choosing ice cream flavors. Following on this remark, Vice President Bourguignon observed that the public’s reaction to privatization “is not necessarily different from the reception given to other reforms, such as trade liberalization or financial liberalization. There is, very often, some ambiguity about who are the gainers and who are the losers.” And then came his fanciful punch line:

What is really missing, or what we must be extremely careful about in this respect, is to make sure that at the time the reform is launched, that there is an announcement which is clearly made about who will be benefiting and who might be losing from the reform, and if there are losers, what is the kind of compensation that may be given to them? ¹⁵²

Laced a little more judiciously throughout the Kessides’ report than in previous Bank documents is the exhortation that reform programs be properly communicated to the public in order to gain acceptance. The Bank has frequently invoked the absence of

¹⁵² World Bank. June 14, 2004. *Press Conference on Reforming Infrastructure*.

an “effective communications strategy” to explain the public backlash against privatization in the WSS sector. Consequently, one is left a bit incredulous seeing Bourguignon’s words above. What self-interested politician would identify *ex ante* who the expected losers are from a proposed privatization reform? And given that many developed countries are not politically willing to compensate losers of market liberalization, how exactly are the poor or middle-income developing country borrowers of the World Bank expected to do so?

Other Bank answers to questioners during the press conference take on this same phantasmal quality of conflating reality on the ground with the illusory ideal of how PSP should be practiced. A questioner in the African Urban and Water Unit asks Mr. Kessides how increasingly decentralized responsibilities for urban WSS (a policy strongly pushed by the Bank for several reasons, including to impose fiscal restraints on central governments and weaken their budgetary authority) can be managed by local governments in the context of already extremely weak national government capacity. How will governments know how to set tariffs or to negotiate contracts? Mr. Kessides responds again that this is indeed a problem—water provision is by its nature local or regional in character, yet the lower the tier of government, the less capacity to manage: “So the central regulatory authority will provide nonbinding, perhaps technical and other guidelines for regional authorities to follow.” And shortly thereafter the Vice President for Infrastructure Nemat (Minouche) Shafik intercedes, asserting that “It’s an illusion for central governments when they decentralize in this way, that they’re getting these [service and financial] obligations off their books... I think there’s no escaping from the fact the somebody,

probably the central government... needs to provide support in terms of brokering and standardizing contracts... even the UK [when it privatized water] provided central support to local governments, and often forced them to bundle contracts because they were too small.” Perhaps the capstone of Bank double-speak, of veering from revisionism back to conventional thinking, comes at the end of the press conference, as Kessides positions himself between the pragmatism of Infrastructure Vice President Shafik, and the neoliberal cheerleading of Vice President for Private Sector Development Klein. On the one hand, Kessides acknowledges that there are significant fixed costs associated with regulation which would make decentralizing these functions impossible, except perhaps in large countries with large and competent subsovereign jurisdictions. On the other hand, Kessides agrees with a point made by Mr. Klein, which is that when it is not feasible to wait for effective regulatory institutions to be functioning—which by this point all have agreed is a long-term proposition—and in the face of very weak regulatory capacity, then “there is scope for very aggressive liberalization...and it might be appropriate under those circumstances to let things go and not try to regulate, and I feel that we have not explored as much as we could that option.”¹⁵³

Reforming Infrastructure does represent an important revisionist moment for the World Bank, incorporating self-reflection and self-criticism, and pointing to necessary policy changes in order to make infrastructure reform function as a poverty reduction strategy. It was at the same time an attempt by the Bank to square a circle that it was fundamentally unable to square, because of competing interests within and

¹⁵³ The World Bank. June 14, 2004. *Press Conference on Reforming Infrastructure*.

a core ideological belief system in the supremacy of the market. With respect to the former, task team leaders need to show project-specific results in a short-to-medium term time frame, while the institutional prerequisites for WSS sector reform fall under a medium to long-term time horizon. Moreover, institution building is not nearly as profitable to the Bank *qua* bank as building physical infrastructure, whether a dam or a water treatment facility. With respect to the Bank's ideological orientation, as one senior official in the Water Anchor put it to me, the Bank's push for PSP in the water sector "was just an expression of its larger neoliberal agenda."¹⁵⁴ But this same official stressed that ideology could be and was in practice trumped by the Bank's pursuit of its bottom line: it was for this reason that the Bank was returning again to large and controversial infrastructure projects such as dams. Several senior Bank staff working in the WSS sector acknowledged to me that PSP was not the driving force in determining whether or not the Bank would make a loan in the sector—and that it would readily bend this principle to pragmatism (i.e., an assessment of whether the loan would be repaid by the borrower and yield some development benefit).¹⁵⁵ As I discuss in the next chapter, in an interview with Ioannis Kessides six years out from the publication of *Reforming Infrastructure*, Mr. Kessides reflects the continued ambivalence within the Bank about neoliberal reform in the WSS sector. He also emphasized, even more so than he had done in 2004, the inherent obstacles to PSP in the water sector as compared to other infrastructure sectors.

¹⁵⁴ Interview 2.

¹⁵⁵ Interviews 1, 2, and 5.

The next significant moment in the debate over PSP for the Bank occurred at the Fourth World Water Forum (4th WWF) in Mexico City in March 2006. Close to 20,000 participants from the private sectors, governments, and NGOs attended the six-day forum, whose main theme was “Local Actions for a Global Challenge.” Although the challenges facing the PSP paradigm emerged in the 3rd WWF, particularly in the Camdessus Report’s acknowledgment of severe financing shortfalls, the failures of the PSP experiment in water were more explicitly acknowledged in the 4th WWF by the IFIs and the key promoters of the Forum. The New York Times/International Herald Tribune reported that:

For more than a decade the idea that private companies would be able to bring water to the world’s poor has been a mantra of development policies promoted by international lending agencies and many governments. It has not happened....Instead, many people here want to return to relying on the local public utilities that still supply 90 percent of the water to those households that have it....Even officials of the World Water Council, the organization that runs the forum and is heavily weighted toward multinational water companies, appear to be giving up on wholesale privatization. “Let’s finance infrastructure for the 50 countries most in need and the twenty poorest megacities through a more intense donation policy” said Loïc Fauchon, president of the Council.”¹⁵⁶

The article further noted that although the debate over privatization was driving the controversy inside and outside the forum, where activists held alternative anti-privatization events and marches, activists still remained unconvinced that governments and the IFIs had given up on privatization. (A fuller discussion of the activists’ involvement in the 4th WWF is covered in the chapter on TANs). A joint press release issued by 15 water activist NGOs after the close of the Forum accused

¹⁵⁶ Malkin, Elisabeth. March 21, 2006. “Big-time Shift” in Facing Water Crisis, *International Herald Tribune*.

the WWC and the World Bank of being “determined to keep private sector management on the agenda” without any serious assessment of the “privatisation debacle,” and its effects on poor countries, which remained at the mercy of the IFIs.”¹⁵⁷

Despite this criticism from the anti-privatization TAN, events inside the Forum revealed a more complex picture of the IFIs’ attitude toward PSP, a continuation of the internal contradictions characterizing the previous three years. Speaking at an official session of the forum, Jamal Saghir made the somewhat astonishing remark that the last twenty years in WSS had been wasted in development efforts as a result of the focus on privatization.¹⁵⁸ To avoid the same outcome over the next ten years, the focus must be on helping public utilities to function better--since the vast majority of water services are, and will continue to be, provided by the public sector. This sober reassessment of PSP by its erstwhile cheerleaders was reinforced during the fourth day of the forum, which was devoted to one of the five framework themes, “Water and Sanitation for All.” The day was characterized by a plethora of thematic sessions addressing the human right to water, the “public-private controversy in water and sanitation,” public policies for WSS services, and “turnaround” of public utilities. The mood and outlook inside the 4th WWF, in other words, reflected the somber reappraisal by PSP cheerleaders and a reorientation towards the less sanguine new reality.

¹⁵⁷ “World Water Forum Fails, say civil society groups.” Mexico City, March 22, 2006. Among the consortium of fifteen NGOs issuing the press statement were the Blue Planet Project, CEE Bankwatch, the Council of Canadians, Food and Water Watch, Red VIDA, the Transnational Institute, and the World Development Movement.

¹⁵⁸ John Butterworth and IRC International Water and Sanitation Centre for the Water Integrity Network (WIN), “WIN at the 4th World Water Forum 2006,” 2006. : <http://www.waterintegritynetwork.net/page/198> (August 6, 2010).

But neither were the activists wrong in doubting that the IFIs and private sector would so easily abandon privatization. This was evidenced in a signature report unveiled at the 4th WWF, the Gurría Task Force’s findings on “Financing Water for All,” the official follow-up to the report of the Camdessus Panel. The task force, named for its chair and incoming Secretary-General of the OECD José Angel Gurría Treviño, was mandated to present a case-based report on progress made and challenges ahead, focusing on new models for financing WSS at the local level, and on financing water for agriculture. The Gurría report noted that despite recommendations to double WSS financing to developing countries from \$15 billion in 2003, the water sector was experiencing static, decreasing, or marginal increases. The task force faulted the recommendations of the Camdessus Panel for focusing too narrowly on the supply side, without addressing the demand for finance. It argued that the focus should be redirected at issues affecting the demand side, such as tariff structures, regulation, local capacity, and access to various finance options for local governments and service providers. The task force saw its mandate as putting the *local* private sector and local civil society front and center in the quest to improve WSS for the poor. It argued that financing new investments in WSS would only be possible if repayment was assured, and this was equally true in poor areas—where the cost of service provision would have to be balanced by revenues from user fees and taxpayer contributions. In order to provide the poor and unserved with greater access, the report broke ranks with orthodox economic thinking inside the Bank about tariff structuring, and called for “solidarity among customers, cities, and countries through

cross-subsidies and targeted subsidies.”¹⁵⁹ But it also cautioned that cross-subsidies and pro-poor tariff structures needed to be socially and politically acceptable, “without making excessive demands, in order to avoid richer customers disconnecting from public services and resorting to their own private supply.”¹⁶⁰ And the report did not let go of the prescription for full cost recovery, arguing that the IFIs could provide partial risk guarantees¹⁶¹ for operational or connection subsidies during the transition to full cost recovery. Following up on one of the recommendations of the Camdessus Panel, the Gurría report called for increasing the creditworthiness of local governments through greater use of non-sovereign and sub-sovereign financing, such as private issuance of municipal bonds, backed by partial credit guarantees¹⁶² from IFIs or bilateral aid agencies.

The message of the 4th WWF with respect to the privatization debate was, in sum, a mixed one. The acknowledgment of the failure of the PSP model coexisted with attempts to re-divert it more forcefully to the local, decentralized level. The Forum’s Ministerial Declaration reaffirmed the “primary role of Governments in promoting” improved access to water and sanitation, “through improved governance at all levels and appropriate enabling environments and regulatory frameworks.” This

¹⁵⁹ Paul Van Hofwegen 2006. Task Force on Financing Water for All, *Enhancing Access to Finance for Local Governments, Financing Water for Agriculture*, Chaired by Angel Gurría..

¹⁶⁰ Van Hofwegen 2006, 6.

¹⁶¹ Partial risk guarantees cover debt service defaults on a loan, normally for a private sector project, when such defaults are caused by a government’s failure to meet its obligations under project contracts to which it is a party. See World Bank Operational Policy 14.25, “Guarantees,” December 2005. http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/EXTPOLICIES/EXTOPMANUAL/0,,contentMDK:20064748~menuPK:4564185~pagePK:64709096~piPK:64709108~theSitePK:502184,00.html#_ftn1

¹⁶² Partial credit guarantees cover debt service defaults on a specified portion of a loan, normally for a public sector project. See World Bank Operational Policy 14.25, “Guarantees,” December 2005. http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/EXTPOLICIES/EXTOPMANUAL/0,,contentMDK:20064748~menuPK:4564185~pagePK:64709096~piPK:64709108~theSitePK:502184,00.html#_ftn1

intentionally ambiguous invocation could be read as either consigning the public sector to a supportive role for the private sector, or reaffirming its role as a provider of services.

The Ministerial Declaration also failed to recognize the human right to water, a topic of heated debate during the two-day negotiations among government representatives.¹⁶³ The water activists' network accused the World Water Council and the International Federation of Private Water Operators, AquaFed, of trying to co-opt the "right to water," one of the key demands of civil society groups opposing the commercialization of water. Activist groups argued that the embrace of "right to water" rhetoric was a clever tactical move with little risks involved for TNCs, and even a potential marketing tool for expanding markets.¹⁶⁴ Indeed, the 4th WWF was the self-described "premiere" for AquaFed, which was created in 2005 to act as the voice and institutional representative of global private WSS operators. In its introductory brochure distributed at the Forum, AquaFed claimed a membership of over 200 water service providers operating in 38 countries.¹⁶⁵ It described its *raison d'être* as filling a gap and responding to the demand for a international sectoral body which could interact with the "global community of water stakeholders," such as the IFIs, the U.N., the European Community, federations of local governments, and global NGOs. AquaFed has close connections to the French water TNCs Suez and Veolia; its president, Gerard Payen, is the former CEO and chairman of Suez's water

¹⁶³ At one point during the negotiations over the final draft, ten governments appeared to support the right to water in the Declaration, including all of the left-leaning Latin American countries. They were opposed by countries such as Mexico, the U.K., U.S., Netherlands and France.

¹⁶⁴ "World Water Forum Fails, say civil society groups." Mexico City, March 22, 2006.

¹⁶⁵ "AquaFed: The International Federation of Private Water Operators," March 2006.
http://www.aquafed.org/pdf/Aquafed_Leaflet_2006-03.pdf (August 5, 2010).

division, the Ondeo Group. Noting that the private water industry lobbied through a host of different organizations in the years prior to AquaFed's formation, PSIRU pointed to two main motives for AquaFed's establishment. The first motive was to counteract negative publicity: on the one hand, generated by anti-privatization activists, and on the other hand, by the perception that water TNCs failed to live up to the expectation of delivering investment finance to fulfill the PSP promise in poor countries. Secondly, the water TNCs were looking for a collective lobbying vehicle specifically aimed at influencing European Union institutions.¹⁶⁶ Although it did not co-sponsor any sessions at the forum, AquaFed described itself as pleased with its debut reception from a variety of "water stakeholders," noting that its members were treated with respect and without bias:

This shows that...ideological confrontations are not unavoidable. As global practitioners the world over agree: there is no "best system," merely a myriad of good systems that can learn from each other. [Our] members have clearly demonstrated that they have sought to dialogue, especially on the "right to access to water" (emphasis mine) and the role and needs of local governments... It becomes clearer now in the minds of many institutional players that there are very numerous private water operators all over the world. Until recently they were ignored by the global community. AquaFed's goal is to make them known and give them a better voice....The worldwide footprint of private sector operators is often overestimated. At the same time the significant contribution of private sector operators to public health and sustainable development is greatly underestimated by the international community.¹⁶⁷

The activists' reaction to AquaFed's rhetorical cooptation of the "right to water" (or their clever permutation of that phrase, inserting "access to,") turned out to be quite

¹⁶⁶ D. Hall and O. Hoedmann, March 2006. *AquaFed: Another Pressure Group for Private Water*. Report Commissioned by the European Federation of Public Service Unions. <http://www.psir.org/reports/2006-03-W-Aquafed.doc> (August 4, 2010)

¹⁶⁷ AquaFed March 2006. "A world Première for AquaFed and its Members." http://www.aquafed.org/pop_up_wwf4_02.html (December 20, 2010)

prescient. As I argue in the section below, the formation of AquaFed was instrumental in re-energizing the World Bank's policy orientation towards PSP in the years following the 4th WWF, up until the global financial crisis of 2008.

3.2.3. Different Tune, Same Dance Partner? Redefining PSP, 2006-2010

In November 2006 the OECD hosted the Global Forum on Sustainable Development in cooperation with the World Bank and Agence Française de Développement (AFD). The purpose of the Forum was to discuss how developing countries could work with local private water companies to provide affordable safe water and basic sanitation, and the role donors, the financial sector and international private water companies should play. Invitees included government representatives from OECD and developing countries, major international water companies (e.g. Suez, Veolia, and Thames Water), and new private water operators from developing countries. What is noteworthy about the OECD Forum is the striking convergence of messaging by Gerard Payen of AquaFed and Jamal Saghir of the World Bank. Payen opened his presentation by again stressing the contribution of private operators, “with the support of public authorities,” to reaching the MDGs in drinking water in their operational areas.”¹⁶⁸ He recounted the growth of local and developing country operators, and claimed that PSP was active across all contract types. (However, a closer look at Payen's PowerPoint slides reveal that new equity joint ventures and concessions were all in either upper-middle income developing countries or China. The majority of

¹⁶⁸ Payen/and AquaFed. November 29, 2006. “Water and Sanitation Services: Trends at the Global Level, A Private Perspective.” PowerPoint presentation, OECD Global Forum for Sustainable Development. http://www.aquafed.org/pdf/2006-11-29_OECD-WorldBank_AquaFed-Payen_WSS-globaltrends_Pc_2006-11-29.pdf (August 7, 2010)

contracts, leases/affermage and management contracts, which require no investment from the private operator, were prevalent in Central and Eastern Europe and only in two less-developed African countries.) He quoted the UNDP's 2006 Human Development Report as stating that public-private polemics are detrimental to the poor; at the same time, he acknowledged that operators and donors needed to now be focusing on "sustainable cost recovery," rather than full cost recovery. Sustainable cost recovery recognizes that there may always be an affordability gap for the poor that has to be met through subsidies, but of the right type (e.g., connection vs. consumption subsidies). Private operators had become scapegoats, Payen continued, and everyone needed to recognize that "operators are not bankers." PSP required a "partnership spirit," which meant that public authorities had to hew to their core political responsibilities of providing an enabling framework, even with decentralization to local governments and regardless of whether utility operators were public or private. At the same time, Payen dismissed as a myth the notion of "independent regulators," arguing that periodic renegotiations with private operators are "normal and necessary."¹⁶⁹

Jamal Saghir's presentation on behalf of the World Bank echoed, sometimes verbatim, the same themes as AquaFed's.¹⁷⁰ He underscored the importance of a partnership between the public and private sectors; "smart risk allocation" between private investors, governments, and end-users; the need for public support of PPPs; a shift to the principle of limited cost recovery; and the need to depoliticize tariffs and

¹⁶⁹ Payen/AquaFed, November 29, 2006. "Water and Sanitation Services: Trends at the Global Level, A Private Perspective."

¹⁷⁰ Saghir. November 29-30, 2006. "Public-Private Partnerships in Water Supply and Sanitation – Recent Trends and New Opportunities," PowerPoint Presentation, OECD Global Forum for Sustainable Development. <http://www.oecd.org/dataoecd/3/61/37723389.pdf>. (August 7, 2010)

employ “smart subsidies.” New forms of private participation were now available, supplanting the model of reliance upon large TNCs as investors. Saghir had reframed the issue yet again: it was now time, as headlined by Slide 27 of his PowerPoint presentation, to “Rebuild and Adapt the PPP/PPIModel:”

“We need to rebuild and adapt the PPP model of the 90s on the basis of the lessons and experiences of the recent years and the immediate needs: [The] Public sector role as enabler (policy maker and regulator) and in some cases provider cannot be substituted (sic).. [The] Private sector is still a key player to provide the large amounts of capital and management needed to sustain infrastructure development and economic growth. We believe that only through effective partnering and increased mobilization of private resources will we be able to make a “dent” in the growth and poverty reduction agenda. PPPs need to be mainstreamed as an important policy tool to provide public services. The IFC and the World Bank stand ready to continue supporting PPPs.”¹⁷¹

The professed agnosticism between public and private provision that had permeated World Bank policy documents for the preceding three years had thus tilted again back toward the private sector. Desultory prognoses were pushed aside, buoyed by renascent hope in the “new” private sector actors from developing countries, and the promises of decentralization. Moreover, despite years of evidence to the contrary, Saghir continued to maintain that the private sector will be a key player to “provide large amounts of capital.” The new messaging was reprised again by Saghir at Water Week 2007, the Bank’s biennial water confabulation. Saghir gave virtually the identical slide presentation that he did at the OECD’s Global Forum, but the credo in Slide 27 was toned down and more equivocally expressed. The private sector now “*could contribute in* (sic) making a dent” in poverty reduction, rather than being the sine qua non of that outcome. The reference to PPPs needing to be mainstreamed as

¹⁷¹ Saghir. November 29-30, 2006, Slide 27.

an important policy tool was also eliminated, as was the reassurance that “the World Bank/IFC stand[s] ready to assist.”

PSIRU interprets this reversion in 2007 as a confirmation that the World Bank’s policies in WSS are driven by two imperatives: the objectives and strategies of TNCs, and neoliberal ideology.¹⁷² As I lay out in my schematic model of the multiple external and internal influences on Bank behavior, this is an incomplete and underspecified explanation for the Bank’s embrace of PSP, but it contains a partial truth. Jamal Saghir, in particular, appears repeatedly to have seized upon any optimistic projections for expanded investment put forth by the private sector, and one may clearly infer from their synchronized OECD presentations that Saghir and Payen/AquaFed were in close contact. But Saghir himself represents a particular pole in the World Bank: he joined the Bank in 1990 as a private sector development (PSD) specialist and worked his way up to Director of the Energy, Transport and Water Department (ETW) through numerous positions related to PSD. Just prior to Water Week 2007 Saghir was promoted to Director of ETW in the Sustainable Development Vice Presidency; prior to this, he had been Director of Energy and Water in the Private Sector Development and Infrastructure Vice Presidency. An executive at an international water association expressed his frustration to me over Saghir’s tenacious ideological preference for promoting PSP in the WSS sector in the face of the predominance of public utilities, including many well-performing ones, and at the expense of focusing on improvements in their operation (see discussion under Water

¹⁷² PSIRU March 2009.

Week 2009 below).¹⁷³ In short, notwithstanding the regrets he expressed at the 4th WWF at the Bank's prolonged attachment to PSP, Saghir has continually revealed himself to be a PSP fundamentalist. But the Bank is not monolithic, and as I discuss later in this chapter, operations staff are guided as much by pragmatism and their functional imperatives (getting loans and projects continually out the door) as by ideological proclivities.

The question of the extent to which the Bank has been driven by the agenda of private capital became moot by late 2008 as the global financial meltdown once again threatened the Bank's PSP agenda. In one of the keynote addresses at the Bank's Water Week 2009 Carlos Braga, Bank Director of the Economic Policy and Debt Department, warned that the crisis would make PPPs quite vulnerable as the public sector cut infrastructure spending in the context of fiscal adjustment and the private sector confronted liquidity constraints.¹⁷⁴ To the extent the Bank had counted on bolstering private finance with local public debt, it now faced an environment where corporate and public bond issues were falling dramatically in emerging markets, let alone developing countries. In addition to scaling up lending to address the crisis and extending loan repayment terms, the Bank's policy response was otherwise consistent with the role it had laid out for itself since the 3rd WWF. To address the financial risks common to municipal water projects it would customize "financial solutions" for client borrowers using credit enhancement and

¹⁷³ Conversation with an executive in an international water association, February 17, 2009. Washington, D.C.

¹⁷⁴ Braga. February 17, 2009. "The Financial Crisis and its Implications for Infrastructure Investments." World Bank Water Week, Washington, D.C. : http://siteresources.worldbank.org/EXTWAT/Resources/4602122-1213366294492/5106220-1234469721549/0.2_Infrastructure_Crisis.pdf (September 3, 2010).

risk mitigation tools, through instruments such as partial credit and risk guarantees and currency and interest rate swaps.¹⁷⁵ In her Water Week presentation, the Director of the Banking and Debt Management Department of the World Bank Treasury pointedly marketed the Bank's funding cost advantages to clients over their cost of borrowing in bond markets. The Bank today was not the traditional one-size-fits all lender of yesteryear, but now provided a full menu of financial and advisory services customized to the needs and risks of each client.¹⁷⁶ This was the new World Bank qua bank—marketing itself to maximize its comparative advantage in global capital markets.

Water Week 2009 was an opportunity for the Bank to unveil, side-by-side, the two largest studies it had to date conducted on the performance of PSP and PPPs in urban water and sanitation. A full afternoon on the first day was devoted to two panels on these studies, new trends for PPPs, and a “debate about the future.”¹⁷⁷ The Water Week agenda noted that the “early termination of several high-profile PPP contracts in recent years has cast doubts on the viability of this approach for developing countries;” these studies would anchor the debate in “solid objective data...to assess the actual performance of PPP projects.”¹⁷⁸ The first of the reports was a case study-based assessment of the performance of 65 large water PPP projects over the 15 year period 1992-2007. It was authored by Philippe Marin, senior water

¹⁷⁵ Grandolini. February 17, 2009. “Customized Financial Solutions, Water Week.” PowerPoint Presentation. http://siteresources.worldbank.org/EXTWAT/Resources/4602122-1213366294492/5106220-1234469721549/0.3_Customized_Financial_Products.pdf (September 3, 2010)

¹⁷⁶ Grandolini. February 17, 2009.

¹⁷⁷ P. Marin and M. Fall. February 17, 2009. “Public Private Partnerships for Urban Water Utilities in Developing Countries: Review of the last 15 years of experience and Debate About the Future.”

¹⁷⁸ Water Week 2009. Tackling Global Water Challenges. : <http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTWAT/0,,contentMDK:21966422~menuPK:5207704~pagePK:148956~piPK:216618~theSitePK:4602123,00.html> (June 23, 2009)

and sanitation specialist in the Bank's Water Anchor and Coordinator of Water Week 2009. A staffperson in an NGO active in the anti-privatization movement quoted Marin as telling her that the Bank put out this report because it "was tired of constantly answering questions about PPPs and privatization and wanted to have documentation about it."¹⁷⁹ Marin's study examined PPP projects in cities with populations of 25,000 or greater where projects were in place for at least five years (three in the case of management contracts). By population served, the sample covered in the study represented close to 80 percent of the water PPP projects that were awarded before 2003 and had been active for at least three years.

The second study consisted of a sophisticated econometric analysis using panel data covering the entire population of utilities with PSP from the early 1990s to 2004 (301 utilities, all with at least three years of post-PSP experience). The study was funded by the Bank's Public-Private Infrastructure Advisory Facility (PPIAF) under the lead authorship of Katharina Gassner, senior economist in the Bank's Finance, Economics and Urban Development group (FEU).¹⁸⁰ To control for the counterfactual, how public utilities would have performed in the absence of PSP, Gassner included a large sample of 926 comparator SOEs operating in the same sectors and countries or regions. The analysis employed a dual estimation strategy to combine explanatory power. The first estimation strategy used a larger but potentially biased data set which included all available SOEs as comparators, while the second strategy used a smaller set of SOEs and a "difference-in-differences" estimation

¹⁷⁹ Reported to me in confidence by an NGO based on an interview with a high-level Bank specialist in water and sanitation, May 2009.

¹⁸⁰ Gassner, K., A. Popov, A., and N. Pushak. 2009. *Does private sector participation improve performance in electricity and water distribution?* Trends and Policy Options, No. 6. Washington, D.C.: The World Bank and Public-Private Infrastructure Advisory Facility.

procedure to choose the best subsample of SOE comparators from full panel sample. This technique provided for more rigorous estimation and differentiated by contract type, but at the cost of fewer observations and results. Gassner described her study to as surpassing all previous statistical studies on PSP because of its treatment of the counterfactual and its use of this dual estimation strategy. However, she acknowledges that the study does not assess the economy-wide welfare effects of PSP and cannot identify its beneficiaries.

Marin and Gassner's studies both confirmed what the Bank had been forced to acknowledge since 2004: PSP had brought no increase in investment by the private sector despite the employment attrition documented. Each study instead focused on five broad performance indicators: access to water, quality of service, operational efficiency (a composite indicator), tariff levels and investment. A comparison of the results of these studies across the key performance indicators is presented in Table 1. Most striking, as discussed below, the only robust results for the superiority of PSP derive from a reduction in staffing by private operators.

Philippe Marin opened the Water Week session where he presented his report with the following remarks, keyed to his PowerPoint presentation:

After huge initial expectations in the 1990s, the pendulum has swung back. There is little enthusiasm now for PSP. But, there's little objective performance data in the published literature even though more than 250 PPPs were awarded in developing countries since 1990...contractual targets for these PPPs were not met in most cases...The goal is not to discuss whether private operation is better. This study is the requisite step to move beyond the debate over public versus private.

Marin went on to cite an impressive list of contract cancellations, concessions in crisis, and countries reverting to public management at the end of a PPP contract.

Among the high-profile terminations were Bolivia (Cochabamba, La Paz-El Alto), Argentina (Tucuman, Buenos Aires, and Santa Fe), and several countries in sub-Saharan Africa (Mali, Chad, Tanzania). Concessions in crisis included Manila (west zone) and Jakarta, and countries reverting to public management at the end of a PPP contract included Venezuela, Trinidad, Turkey, Guinea, Uganda and Jordan. But after enumerating these failures Marin continued by stating that “84 percent of PPP projects awarded for water utilities since 1991 are still active, with only nine percent terminated early.” Citing to this percentage is a sleight of hand on Marin’s part, for several reasons. First, the list above includes many of the largest PPP projects and of the type most promoted by the Bank (concessions). Fifty percent of the PPP projects in sub-Saharan Africa failed. Second, Marin does not review the performance of contracts awarded since 2003: these newer contracts covered 90 million, or 56 percent, of the 160 million people served by PPP contracts at year-end 2007. The majority of the cancelled or crisis-ridden projects were in developing countries most in need of help in meeting the MDG goals for water—not in transition countries or China, which represent the lion’s share of contracts awarded since 2003. Third, Marin notes that of the 65 countries that embarked on water PPPs in the last two decades, 24 (37 percent) had reverted to public management or terminated early following contractual disputes.

TABLE 1
PPP Performance Indicators and Results: Marin versus Gassner Studies

Performance Indicator	Results: Marin (65 case studies)	Results: Gassner (econometric)
<p>ACCESS</p> <p>Connections and Residential Coverage (percent population)</p>	<p>Mixed. Overall performance of <i>concessions</i> mixed, many failed to invest the amount of private funding originally committed, and failed to meet contractual targets for <u>coverage</u>. Better performers were where private financing was complemented by public funding. <i>Leases-affermage</i> “usually performed more satisfactorily.” The two cases mentioned are Senegal and Côte d’Ivoire. However, Marin points out that Côte d’Ivoire has a long history with the <i>affermage</i> model, dating back to a 1960 contract with the French TNC SAUR.</p>	<p><u>Connections</u>: 12 percent increase in average number of residential connections in post-PSP period; 54 percent increase in residential connections per worker.</p> <p><u>Residential coverage</u>: Either decreases significantly or shows no significant changes across all types of PSP. “This result is somewhat surprising...suggests that data quality may be poor.” Evidence inconclusive.</p>
<p>QUALITY OF SERVICE</p> <p>Hours per day of water</p>	<p>Mixed. Colombia and some cases in West Africa improved, but “not everywhere.” Manila (western zone) failed to improve service continuity.</p>	<p>Inconclusive overall. Panel regressions on the full sample show average increases of 41 percent in daily water service. But this is not confirmed by difference-in-differences estimation with matching, possibly because of insufficient data.</p>
OPERATIONAL EFFICIENCY		
-Water Distribution Losses	<p>Mixed. Improved in West Africa, Brazil, Colombia, Morocco, Eastern Manila (Philippines). But, NRW remained very high-- more than 50 percent, in numerous cases.</p>	<p>Evidence inconclusive overall. Panel regression shows reduction of 23 percent for all types of PSP, but this is not confirmed by difference-in-differences estimation, possibly hampered by lack of data.</p>
-Bill Collection	<p>Some improvement, but mainly in <i>management</i> contracts.</p>	<p>No improvement in bill collection rate over and above state-owned utilities—either in panel data or difference-in-differences estimation.</p>

TABLE 1
PPP Performance Indicators and Results: Marin versus Gassner Studies

Performance Indicator	Results: Marin (65 case studies)	Results: Gassner (econometric)
-Labor Productivity (No. of staff per 1000 customers)	Strong evidence that improvements in productivity achieved through staffing reductions and increases in the customer base. Significant layoffs, ranging from 20-65 percent of the initial labor force.	Across all contract types, strong attrition in employment—ranging from 20 percent for concessions to 34 percent for partial divestitures. Water sold per worker and connections per worker increase for all contract types.
OVERALL EFFICIENCY (Combination of three indicators above--Access, Quality of Service and Operational Efficiency)	<i>Concessionaires:</i> Unclear. <i>Lease-Affermage:</i> operating efficiency in some cases. <i>Management contracts:</i> water loss reduction and improved bill collection in many cases.	
TARIFF LEVELS	Cites Gassner, no increase.	No increase.
INVESTMENT	No increase.	No increase, despite the employment attrition documented.
SANITATION		No significant effect of PSP on connections and output in the sanitation sector—under either methodology. Only effect is through decrease in employment: 37 percent increase in connections per worker and 19 percent increase in residential coverage; also in wastewater treated per worker. But not confirmed in matching procedure due to lack of data.

Marin's 208 page report, *Public-Private Partnerships for Urban Water Utilities in Developing Countries* is in fact replete with examples of internal inconsistencies, juxtaposing broad positive assertions about PPPs with narrative detail and conclusions that undercut these assertions. Comparing the narrative treatment of the performance indicators listed in Table 1 to the ultimate conclusions about each indicator is illustrative. Beginning first with the contribution of PPPs to increased access, measured by connections to piped water and/or residential coverage,¹⁸¹ Marin claims that 24 million people were connected to water supply networks since 1990 through 36 large PPP projects. Thirty of these projects were concessions, and the remaining six, lease-affermage. Yet a striking number of these projects collapsed or faced dire problems (Argentina, Bolivia, west Manila); did not meet targets for private investment in expansion (almost all); or relied on public financing or grants to finance what expansion did occur (all except for Côte d'Ivoire, in which a subsidiary of the French water multinational SAUR was established over fifty years ago). Argentina was the first country in Latin America to embrace PSP in large-scale water operations in the early 1990s across several major cities. Yet Marin admitted that only "moderate progress of seven percentage points" had been achieved by 2004 in expanding coverage for both water and sewerage. Moreover, the largest concession in Greater Buenos Aires failed to make progress after 1998—well before the country's economic crisis erupted. In Cordoba, Argentina; Guayaquil, Ecuador;

¹⁸¹ Marin here measures access using connections to piped water, but notes that the Joint Monitoring Program, which tracks progress toward the MDGs, uses a criterion of "improved access," referring to access via a household connection or through a standpipe within 200 meters of the household. Computing residential coverage for piped water is also challenging, as it hinges on the reliability of household data in each country, as well as resale of water to neighbors, and illegal connections.

and Cartagena, Colombia, the good performance of PPP concessions was directly attributed to public investment.¹⁸² In the second largest Latin American concession in Guayaquil, Marin credits the expansion of water access in urban areas to cross-subsidies (a telephone tax transfer mechanism) which had been introduced by the government in the 1980s. In Sub-Saharan Africa (SSA), Marin states that “private operators have clearly performed better than public utilities in expanding access through household connections.”¹⁸³ But the caveats which follow this statement virtually negate this confident assertion. Half of the gains in SSA were made in just one country, Côte d’Ivoire, which has had private sector involvement through a French MNC subsidiary since 1960. Further, when access is measured using the “improved access” criterion of the Joint Monitoring Group for the MDGs, which considers more basic and common forms of water access such as community fountains and standpipes, there is no difference in the performance of public and private operators. The same holds true for an index tracking whether or not countries were meeting the MDGs for water. Moreover, Marin acknowledges that subsidized connection programs played a major role in both Côte d’Ivoire and Senegal, two of the Bank’s favorite PPP countries in Africa—but that “significant rates of disconnection [in those countries] suggest that household connections are not necessarily the most suitable service option for the poorest families.” Marin thus concludes the discussion by remarking: “Overall, there is no evidence that PPP projects are more efficient than publicly managed utilities for expanding access.”¹⁸⁴

¹⁸² Marin 2009, 45-65.

¹⁸³ Marin 2009, 45-65.

¹⁸⁴ Marin 2009, 61-65.

Gassner's study shows a 12 percent increase in the average number of residential connections in the post-PSP period, but finds that residential coverage actually decreases or shows no significant change across all types of PSP. She describes this result as "surprising" and suggests that the data quality may be too poor for a meaningful result. But she provides no further explanation, including why poor data quality does not similarly compromise the other results she presents.¹⁸⁵

With respect to the second performance indicator in Table 1, "quality of service" (measured by continuity and hours of water service provided), Marin presents case-specific evidence that private operators helped to ease water rationing in Colombia and several countries in West Africa. But he acknowledges that few data are available on other regions and countries, and there are counter-examples of deterioration in water service provision under private operators, notably in the Western zone concession of Manila and in Antalya, Turkey. Further, Phnom Penh, Cambodia and Ouagadougou, Burkina Faso succeeded in greatly improving continuity of service under public operators. Gassner similarly finds the evidence inconclusive overall.

Marin and Gassner both cite operational efficiency as the area in which PPPs have made their greatest and most consistent contribution. Operational efficiency is defined as an aggregation of three performance indicators: water distribution losses (non-revenue water, NRW),¹⁸⁶ the bill collection rate, and labor productivity (number of personnel per 1000 utility customers). But looking at each indicator in

¹⁸⁵ Gassner, Popov and Pushak 2009, 44.

¹⁸⁶ The NRW ratio is measured as the difference between the volume of water produced and billed to customers divided by water produced. It captures the efficiency of the distribution network (physical losses) and commercial management (commercial losses due to metering and billing problems).

turn, it is only for labor productivity that this claim is validated in each study.

Looking first at NRW, a performance indicator that the Bank prioritizes for improvement in all of its urban WSS lending—Marin’s findings are quite equivocal. Across all types of contracts, private operators succeeded in reducing water losses in Western Africa, Brazil, Colombia, Morocco and Eastern Manila, but no notable progress was achieved in numerous other contracts (Ecuador, Mozambique, Western Manila, and Argentina).¹⁸⁷ In fourteen management contracts reviewed in the study, only five showed slight improvement in NRW.¹⁸⁸ Gassner again finds the evidence inconclusive, with an average increase of 41 percent in daily water service shown in the panel regressions on the full sample, but not confirmed in the difference-in-difference estimations.¹⁸⁹ With respect to the second indicator, bill collection, Gassner finds unequivocally that there is no improvement in the bill collection rate over and above state-owned utilities under either estimation procedure. Marin finds improvement only in management contracts.

The real driver of improvement in operational efficiency for PSP is an increase in labor productivity through labor shedding. Marin’s study finds evidence of significant layoffs, ranging from 20-65 percent of the initial utility labor force. Gassner finds strong attrition in employment across all PSP contract types, ranging from 20 percent for concessions to 34 percent for partial divestitures. A close reading of each study shows that almost all of the claims for the superiority of PSP can be reduced to this consistent result. All other performance indicators show mixed or inconclusive results, or no difference between public and private operators.

¹⁸⁷ Marin 2009, 4.

¹⁸⁸ Marin 2009, 87 and World Bank Water Week 2009.

¹⁸⁹ Gassner, Popov, and Pushak 2009, 45.

Of particular note, Marin admitted at Water Week 2009 that while improvements in utilities' operational efficiency positively impact creditworthiness and financial viability, "these are not directly perceived by customers." In theory, efficiency gains should be passed on to customers in the form of better service and lower tariffs. With respect to tariffs, the potential impact of PSP depends on at least two factors which move in opposite directions: how far the initial tariff level is from the cost-recovery level, and the extent of efficiency gains that can be made by private operators.¹⁹⁰ Marin reports that for most of the cases in his study, tariffs rose over time, but he could not ascertain the underlying reasons or whether those increases were justified. Gassner's study found no significant changes in average residential tariff levels after the introduction of PSP or between public and private operators.¹⁹¹ Gassner points out that especially in view of the "young" regulatory environments in developing countries, the possibility exists that private operators are reaping efficiency gains through increased profits, rather than passing these along to consumers in the form of lower tariffs.

The Marin and Gassner studies simultaneously illustrate both change and resistance to change in the World Bank's position on PSP in water. Each presents findings which reverse, scale back, or significantly qualify earlier Bank claims on the benefits expected to redound from PSP. But having done so, the studies' executive summaries revert back to positive generalizations at odds with data and analysis contained in the selfsame reports, and simultaneously shift responsibilities and

¹⁹⁰ As Marin points out, tariffs are also determined by local factors such as raw water availability and legal and administrative frameworks which may differ between public and private operators.

¹⁹¹ Marin 2009, 5-6 and Gassner, K., Popov, A., and Pushak 2009, 45.

expectations from the private sector to governments.¹⁹² Take the key issue of poverty reduction. Marin frankly acknowledges that results have been “disappointing” and show little evidence that sizable improvements occurred for the poor: “The automatic trickle-down to various groups that was assumed does not happen by itself,” and social considerations need to be explicitly incorporated into PPP reforms.¹⁹³ A senior economist in the Bank pointed out that the Bank recognizes the reality of subsidies for the poor today whereas this was completely off the table fifteen years ago.¹⁹⁴ This is a far cry from the expectations of the 1990s where a key *raison d’être* for PSP articulated by the Bank qua *development* bank was its direct contribution to poverty reduction. Now, as Marin stated bluntly at Water Week 2009, “governments and IFIs must recognize the explicit cost of social goals as well as affordability issues and put in place the necessary instruments instead of trying to pass the problem to a private partner.” Private operators are viewed merely as agents whose behavior is “dictated” by the design of the project. There is no acknowledgment that contract design is rarely “dictated” by governments; rather, as Bank and expert literature affirm, contract negotiations have more frequently reflected principal-agent asymmetries and the unequal bargaining power of corporate actors in relation to developing country governments inexperienced in negotiating long-term infrastructure service contracts. A senior economist in the Bank

¹⁹² Gassner claims that she only draws conclusions from robust results which are confirmed by both estimation techniques, yet the Executive Summary of her study she highlights several results that do not meet this criterion. Marin likewise presents conclusions in his report’s summary, albeit phrased with soft qualifiers, that contradict results presented in the body of the report. He states, for example, that “Despite limitations related to data accessibility and reliability, and the ambiguity of indicators, the analysis of the four dimensions of performance (access, quality of service, operational efficiency, and tariff levels) suggests that the overall performance of water PPP projects has been generally quite satisfactory.”

¹⁹³ Marin 2009, 134 and Water Week presentation, February 2009.

¹⁹⁴ Interview 4.

acknowledged to me that the Gassner study, the most definitive and rigorous to date, could not show whether the poor benefited from PSP. Further, PSP was so dependent on the right regulatory and institutional infrastructure that it was only likely to work, at best, in middle-income countries.¹⁹⁵

Governments, viewed with a new lens from the 2010 perch of the Bank, are now the parties responsible for ensuring that efficiency gains are passed on to customers, that benefits are equitably distributed and that negative impacts are “addressed through well-designed and well-funded mitigation measures.”¹⁹⁶ On top of all this, and most critical of all, governments must now pony up the public financing needed to make the new hybrid models of PSP, such as leases and affermage, operational to replace the failed concession model previously promoted by the Bank. The view from the perch in 2010 is indeed a quite different vista than the Bank gazed upon in 1994-95 at the time of publication of the WDR and Bureaucrats in Business. The prescribed ratio of government versus private sector roles in expanding WSS to the poor have been effectively reversed, with the lion’s share of responsibility, as financier, watchdog, regulator and redistributor, falling squarely back on the shoulders of the public sector in developing countries.

¹⁹⁵ Interview 4. The interviewee spoke of performance benchmarking over a 3-5 year period as an option for poor countries.

¹⁹⁶ Marin, 2009, p.134-135.

Chapter 4: Accounting for Change in the Bank's Agenda for Privatizing WSS

4.1. Theorizing Change at the World Bank

In this chapter I present two schematic models to account for the change in the Bank's agenda for PSP in urban WSS that I described in Chapter Three.¹⁹⁷ These models derive from a synthetic theoretical approach to explaining Bank practices and outcomes. They combine international relations (IR) theory to help explain external influences on the Bank and sociological organization theory to inform an understanding of the Bank's internal culture, norms, bureaucracy, and incentive structures. I draw here in particular on the work of two political scientists and scholars of the Bank, Michelle Miller-Adams and Catherine Weaver.¹⁹⁸ IR theory, including rationalist-derived principal-agent models, contributes to an understanding of the Bank as a powerful international organization influenced by external actors, especially by the interests of its member states, including both dominant donor and client states.¹⁹⁹ The United States is the most powerful donor state, and has historically been most influential in wielding its "power of the purse," particularly with respect to funding for the concessional IDA arm, which requires triennial

¹⁹⁷ As I note in the introductory chapter, I refer here to "models" in the descriptive, not causal, sense.

¹⁹⁸ Miller-Adams 1999 and Weaver 2007, 493–512.

¹⁹⁹ The 187 member countries of the Bank are represented by the Board of Governors. The Board of Governors meets only annually, and delegates day-to-day governance and oversight functions to 25 Executive Directors (EDs). The largest shareholder member states have their own EDs; smaller shareholders group together and are represented by an elected ED. Five developed country donor states comprise the major shareholders of the Bank and collectively wield 37.38 percent of the voting power of the Bank's Executive Directors. As of November 2010, the five largest shareholders in the IBRD, by voting power of the EDs, were the United States (16.40 percent), Japan (7.87 percent), Germany (4.49 percent), France (4.31 percent) and the United Kingdom (4.31 percent). <http://siteresources.worldbank.org/BODINT/Resources/278027-1215524804501/IBRDEdsVotingTable.pdf> (December 18, 2010).

replenishments. However, as a potent quasi-autonomous actor, the Bank's behavior and change cannot be understood as simply derivative of the interests of its member states. Rather, the Bank is pushed and pulled by external and internal tensions: the complex politics of its external environment versus the bureaucratic politics and cultural dynamics of its internal environment. Principal-agent theory helps to explain how the Bank gains autonomy from principals (in Weaver's view, not just member states but also NGOs) through control over asymmetric information and the excessive cost to principals of monitoring slippage.²⁰⁰

But IR and principal-agent theory cannot account for the complex bureaucratic culture of the Bank which plays a critical role in shaping policies and practices. Sociological organization theory and constructivist theory help to "unpack the black box" of agents' preferences, rather than assuming them—as IR theory would. The Bank's internal culture encompasses the ideologies, norms, routines, rules, and incentive structures that shape staff members' expectations and interactive behavior. As Weaver puts it:²⁰¹

Culture informs staff members' logic of appropriateness and consequence, letting them know how to respond to new tasks or challenges, which formal policies "really matter," what behavior will get rewarded or sanctioned in hiring and promotion processes, and what ideas regarding organizational policy and practice may be more readily received. Culture in this sense is intrinsic to our understanding of strategic behavior...Bureaucratic actors, taking cues from culture to figure out what constitutes "rational" behavior, will adopt appropriate language, methodological tools, and other framing

²⁰⁰ Weaver 2007, 495-497. Weaver argues that NGOs play the role of "fire alarms" and "whistleblowers" for donor states, thus helping to reduce "slippage" between donors' agendas and interests and the Bank's. But this presumes that NGOs' interests are aligned with those of donor states, a presumption which may hold in some cases, but certainly not all. To the contrary, I maintain that activists against water privatization and the Bank's PSP agenda found little common ground with powerful donor states in opposing the Bank's PSP agenda.

²⁰¹ Weaver 2007, 497-500.

techniques to promote their ideas and gain voice and resources within the institution.

As I discuss in this chapter and as is later illustrated in Figure 3, I hold that there are three key components of the Bank's internal organizational culture which explain agenda change in PSP in tandem with the external actors and variables I identify. Key among the internal elements are the Bank's function as a development bank, its recognized role as a knowledge producer, and its dominant ideology of neoliberalism.

The World Bank is first and foremost a for-profit institution and a bank; as a *development* bank, it lends money to low and middle-income governments for investment projects and policy reforms.²⁰² The IBRD lends at slightly-below market rates to sovereign governments or for projects guaranteed by sovereigns, while the IDA makes loans to the poorest countries on concessional, or low-cost terms. The IBRD is financed primarily by selling bonds to private investors in international capital markets, backed by the pledges of its member governments. As the NGO watchdog and activist organization the Bank Information Center (BIC) points out:²⁰³

With capital backing of nearly US\$200 billion from its member governments, the IBRD is able to raise significant funds on international capital markets at preferred "AAA" credit rates....[it enjoys] a preferred creditor status with its borrower shareholders, in effect, putting the IBRD first in line for debt repayment. ...Conservative financial and lending policies and practices instill a high degree of investor confidence in IBRD securities. These policies and

²⁰² The Bank has a wide array of loan products; investment project loans and development policy loans are the two main types. Investment project lending typically supports public works and infrastructure, while "development policy" or "structural adjustment" lending is for economic, institutional or other policy reforms, and predicated on the borrower's compliance with pre-agreed conditions.

²⁰³ Data are based on the Bank's 2008 annual report.

practices also instill a high degree of discipline in the IBRD's relations to its borrowers.²⁰⁴

The IBRD has never written off a loan. Its consistent profitability has helped the Bank grow as an organization and fund the activities of the IDA. Nevertheless, the Bank has faced increased competition from private capital markets over the last decade which has reduced demand from middle-income countries such as China, Russia and Brazil—the Bank’s “bread and butter” clients. This has increased these countries’ borrowing leverage over the Bank, and their increased power is also evidenced by recent increases in the voting shares of China, India and Brazil.

The Bank’s role qua bank is reflected in and reinforced by its internal operational environment and the pressures of what are commonly termed its “disbursement imperative” and “loan approval culture.” As Miller-Adams, Weaver and other Bank scholars and observers note, Bank staff are rewarded for packaging large bankable projects with quick turnaround in project design and Board approval. Blueprint, or “one-size-fits-all” projects have been preferred for this reason—though the Bank is often at pains to state that is moving away from this model. Weaver further notes that the time pressures associated with streamlined approval and disbursement often translate into a bias in favor of technical inputs and outputs which can be quantitatively measured and against complex social and political risk assessment.²⁰⁵ This also tends to steer Bank staff away from activities that may not

²⁰⁴ In 2008 the IBRD raised US\$19 billion at medium to long-term maturities. Strict limits are set on loan concentration in individual countries, and the IBRD freezes loan approvals and disbursements if a country fails to pay obligations on time. Bank Information Center, *The World Bank (IBRD and IDA)*. <http://www.bicusa.org/en/Institution.Lending.5.aspx>. (December 5, 2010)

²⁰⁵ Weaver 2007, 505-512.

produce immediately tangible results, a point I emphasize with respect to the critical importance of governance and institutions for well-functioning utilities. Weaver maintains that the Bank's operational culture in lending has historically suffered from an absence of effective monitoring and evaluation: "this path dependency of internal bureaucratic norms and routines has hampered processes of organizational learning and adaptation."²⁰⁶ An interview I had with a senior Bank WSS specialist confirmed that the Bank is in need of more independent project monitoring and evaluation. That specialist shared the example of an African country which had received a "highly successful" rating in the Implementation and Completion Report for a rural water supply project. Yet this specialist knew from first-hand experience that almost half of the pumps for that project were either non-working or sitting unopened in the country's capital. As I argue in Section 4.3 below, the Bank is in fact caught in multiple conflicts between its role as a profit-making bank and its roles as a knowledge producer and promoter of market-oriented values.

In 1996 World Bank President James Wolfensohn announced that the Bank should become a "*knowledge bank*, as focused on disbursing the knowledge assets poor and developing countries needed as it was about providing economic support for development projects."²⁰⁷ Research is an essential input to Bank operations and lending and used in the Bank's advisory services, including policy dialogue with governments, analytical reports (in Bank jargon, "economic and sector work") and

²⁰⁶ Weaver 2007, 505-512.

²⁰⁷ Cohen and Laporte. March 2004. "The Evolution of the Knowledge Bank." KM (Knowledge Management) Magazine. Reprinted on the World Bank's website. : <http://siteresources.worldbank.org/WBI/Resources/EvolutionoftheKnowledgeBank.pdf> (December 18, 2010)

technical assistance.²⁰⁸ The Development Economics Vice Presidency (DEC) is in charge of 80 percent of the Bank's research expenditures and the production of the annual *World Development Indicators* and *World Development Report*. The Bank is the largest development research body, and DEC is important because it also serves as the main source of research for other MDBs and bilateral aid agencies.²⁰⁹

Although the Bank views itself as technocratic and apolitical in its research orientation and output, this characterization has been widely challenged. A 2006 evaluation of Bank research chaired by Princeton economist Angus Deaton and conducted by a team of mainstream economists lauded the Bank for "having done a creditable job of delivering on the many, potentially inconsistent, demands made of [Bank researchers]" and noted that "much of what we read was of very high quality."²¹⁰ But the evaluation also made some notably critical claims with respect to the impartiality and quality of the Bank's work. The evaluators found that:

A small fraction of prominent Bank research is technically flawed and in some cases strong policy positions have been supported by such (non) evidence. The panel fully appreciates the need to take positions before all of the evidence is in, and recognizes that the Bank must often aggressively defend its own policies...[T]he panel believes that, in some cases, the Bank proselytized selected new work in major policy speeches and publications, without appropriate caveats on its reliability...New research methods have sometimes found their way into country assistance and country policy without adequate evaluation.²¹¹

²⁰⁸ Dethier 2007, 469-478.

²⁰⁹ Broad. November 2006. "Research, Knowledge and the Art of 'Paradigm Maintenance:' The World Bank's Development Economics Vice-Presidency (DEC)." (Abridged version). Bretton Woods Project, Update 53. <http://www.brettonwoodsproject.org/art.shtml?x=546206#fn002> (December 5, 2010).

²¹⁰ Quoted in Bretton Woods Project. January 31, 2007. "Knowledge Bank-rupted: Evaluation Says Key World Bank Research Not Remotely Reliable." Update 54. : <http://www.brettonwoodsproject.org/art-549070> (December 5, 2010).

²¹¹ Deaton, Angus, et. al. September 2006. *An Evaluation of World Bank Research, 1998 – 2005*. Washington, D.C.: World Bank Group. <http://siteresources.worldbank.org/DEC/Resources/84797-1109362238001/726454-1164121166494/RESEARCH-EVALUATION-2006-Main-Report.pdf> (December 18, 2010).

Miller-Adams calls the characterization of the Bank as “apolitical” an organizational myth, and traces it to the early decades of the Bretton Woods Institutions’ (BWIs) history, enabling the BWIs to lend to both aligned and nonaligned countries. The Bank is a diverse institution, comprising staff from an array of countries and disciplinary backgrounds. However, as former senior staff member Moises Naim stated, “economic reasoning is respected, while ‘soft’ sociological type analysis is belittled.”²¹² Neoclassical economists make up the vast majority of research social scientists and senior management within the Bank, a trend reinforced during the 1980s following on debt crises in developing countries, the neoliberal Reagan and Thatcher administrations and the turn to macroeconomic policy reforms and structural adjustment lending. Weaver states that “the ideological hegemony of the neoliberal economics perspective is reinforced by what Robert Wade calls the ‘art of paradigm maintenance’—the careful vetting and censorship of prominent Bank publications and public statements by key officials.”²¹³ Professor Robin Broad levels the same accusation at the DEC: she maintains that it has played a critical role in the legitimization of the neoliberal free-market paradigm over the last quarter-century, disseminating “less than objective research.”²¹⁴ In particular, she identifies six interrelated processes and mechanisms through which DEC performs its paradigm-maintenance role by privileging individuals whose work conforms to a neoliberal ideology. These include:

²¹² Quoted in Weaver 2007, 505-507.

²¹³ Weaver 2007, 505-507.

²¹⁴ Broad 2006.

incentives which increase an individual's chances to be hired, to advance one's career, to be published, to be promoted by the Bank's external affairs department, and, in general, to be assessed positively. And, they also include selective enforcement of rules, discouragement of dissonant discourse, and even the manipulation of data to fit the paradigm...this incentive or reward system is typically unstated, may even negate the formal or stated procedures and, as such, functions as "soft" law.²¹⁵

I have outlined here the theoretical and empirical foundations for the models I present in the next two sections explaining agenda change in the Bank. In Section 4.2 I analyze and weight the role of external actors and forces which have influenced this change. In Section 4.3 I do the same for the internal elements of the Bank's organizational culture that I identified above. I conclude by discussing how the external and internal have plausibly interacted to condition this change.

4.2. External Influences: Donors, Clients, TANs and TNCs

In Figure 1 of Chapter Three, I presented a diagrammatic model of actors and elements facilitating and enabling the Bank's pursuit of PSP in water and sanitation during the 1990s. I discussed how the global political economy, neoliberal governments in key donor states, interest by public service TNCs in expanding markets, and pressure on client states to reform, each contributed to the realization of the Bank's agenda. Figure 2 of this chapter illustrates the effects of external influences on Bank change from 2000-2010. Transnational advocacy networks are the key addition to the external actors previously identified in Figure 1; their role is discussed briefly in this chapter, and in detail in Chapter Five. Changes in the global political economy strongly conditioned the interests and behavior of the four actors in

²¹⁵ Broad 2006..

this descriptive model, and their relationships to Bank WSS policy outcomes stands in sharp contrast to the vectors of influence a decade earlier (see Figure 1). At the same time, changes in interests and behavior, especially for the TANs and the Bank's client borrowers, reflect a reaction to failed or misguided Bank and IFI policies for PSP in the 1990s.

As Jeffry Frieden writes, "By the turn of the new [21st] century, the path to growth seemed to run inevitably through globalization, yet this path was littered with disappointments. Scores of countries in the developing and Communist worlds had turned away from protectionism and planning and toward the market, yet few of them had realized substantial improvements in living standards."²¹⁶ The reasons for this are manifold and debated, and include bad policies, insufficient implementation of (putatively) good policy reforms, exogenous shocks, and a fundamental mismatch between liberalized financial markets and national monetary policy autonomy, which generated repeated and destabilizing financial crises. The last two decades have witnessed wave after wave of currency and banking crises afflicting middle-income and transition countries, including Mexico, East and Southeast Asia, Russia, Brazil, Turkey, and Argentina.²¹⁷ These pressures are illustrated in Figure 2 as constraints imposed by the global political economy on client states' continued pursuit of PSP. Public support for policies promoting privatization and PSP similarly reversed course.

Writing in 2002 Birdsall and Nellis noted that "the number of firms undergoing

²¹⁶ Frieden 2006, 437.

²¹⁷ A central conundrum for states wrought by global financial integration was captured by Nobel Prize-winning economist Robert Mundell in his "impossibility theorem," also known as the "unholy trinity." It posits that countries can only have two of three things in an open international economy: capital mobility, a stable exchange rate, and monetary independence. The countries experiencing financial crises during the 1990s and 2000s often found themselves caught between trying to prop up their currencies to stabilize exchange rates and satisfy debtors, and weakening their currencies to promote export-led growth and accumulate foreign reserves.

ownership change now well exceeds 100,000; and the total value of assets transferred has been very large.”²¹⁸ But by the late 1990s and into the first decade of the 21st century, “reform fatigue” had set in. Birdsall and Nellis point to “evidence of political chicanery and corruption in Russia and Malaysia, fiscal mismanagement in Brazil, escalating prices in Argentina, and lost jobs in a great many countries” as factors that contributed to sully the reputation of liberalization, even among proponents of reforms during those decades.²¹⁹ In a much cited 2003 article, the Wall Street Journal wrote that consumers felt deceived by privatizations, associating them with higher utility rates and higher profits for foreign companies and corrupt officials: this was responsible for the “crisis of faith for that apostle of privatization, the World Bank.”²²⁰

The Impact of Market Forces on Agenda Change

Financial crises, political opposition to privatization, and some fundamental miscalculations about the nature of the WSS sector—both by the Bank and private investors, led to a sharp decline and reconfiguration of PSP in WSS throughout the first decade of the 21st century. Sixty-four projects representing an impressive 34 percent of total investment in PPPs between 1991-2009 (\$20.8 billion out of \$60.5 billion) were classified by the Bank as either cancelled or in distress.²²¹ This 34 percent cancellation and distress rate compares to six percent of PPP projects in

²¹⁸ Birdsall and Nellis. May 2002. “Winners and Losers: Assessing the Distributional Impacts of Privatization. Center for Global Development Working Paper No. 6. at SSRN: <http://ssrn.com/abstract=999986>

²¹⁹ Birdsall and Nellis 2002, 1.

²²⁰ Phillips, M. July 21, 2003. *Wall Street Journal*.

²²¹ World Bank, Public-Private Infrastructure Advisory Facility, November 2010.

energy, three percent in telecommunications, and eight percent in the transportation sector.²²² The Latin American and Caribbean region accounted for 45 percent of investment in distressed and cancelled projects, while the East Asia and Pacific region accounted for 44 percent. In contrast to the total number of PPP projects, which increased over the last ten years (especially greenfield projects), actual funding mobilized through these projects has not recovered to the levels disbursed between 1993 and 2000. By region, East Asia and the Pacific and Latin America saw dramatic declines in the 2000s, South Asia showed incrementally small increases, and Sub-Saharan Africa remained virtually devoid of investment.²²³ Since 2006, the number of contracts awarded annually dropped sharply to pre-1999 levels, and the new awards were concentrated in only a few countries, with China taking the largest share. Financing for PSP in China relies primarily on local and expatriate funding.²²⁴

With the exception of China and a very few other countries, these statistics illustrate what happened to the Bank's promise of PSP as a tool for development and for reaching the MDGs in water, if not sanitation. The TNCs in which the Bank had placed its faith in the 1990s beat a quick retreat when economic and political headwinds made investments in most developing countries look untenably risky. In my interview with water finance expert Aldo Baietti at the World Bank, Baietti cited currency risk as a key factor driving TNCs from the sector. He pointed to Maynilad, the private concession in the western zone of Manila, which went bankrupt as a result

²²² World Bank, Public-Private Infrastructure Advisory Facility, November 2010.

²²³ World Bank, Public-Private Infrastructure Advisory Facility, November 2010.

²²⁴ Pinsent Masons LLC 2010.

of foreign-denominated debt.²²⁵ Another former Bank official who worked on WSS in the Africa region noted that after the TNCs “got burned” in Argentina they became much more careful in assessing risk, and were especially risk-averse in Africa: “water systems can only be funded in local currency, it works better that way. The most stable place to invest right now is in China and India.”²²⁶ Baietti said that the private sector did not like the suite of risk mitigation instruments the MDBs began to offer following on the recommendations of the Camdessus and Gurría reports; in particular, they were not happy with the tenors of loan guarantees.

Figure 2 illustrates the opposing forces at work between the Bank and transnational WSS companies from 2000-2010: the decline in TNCs’ interest in developing country markets, which constrained Bank PSP policies, was met with redoubled efforts by the Bank to enable PSP policies. But these strategies have not worked. A faculty member of an Ivy League university who specializes in infrastructure commented to an NGO “that big companies pulled out of the water sector because it was not a high-return investment...it’s too expensive to run utilities, especially in poor countries.”²²⁷ He noted that almost all of the infrastructure investment was in telecommunications or transport in middle-income countries; i.e., in investments perceived as safer than water: “the Bank’s focus is on Africa, but there’s no evidence of infrastructure improvements there. Private companies would rather pull out their fingernails than invest in Africa.” Another academic water expert who was contracted by the World Bank to explore re-engagement with public utilities

²²⁵ Interview 3.

²²⁶ Interview notes shared by an NGO based on an interview with a former high-level water specialist at the World Bank, October 2008.

²²⁷ Interview notes shared by an NGO based on an interview with a former high-level water specialist at the World Bank, September 2008.

also underscored that the politics and economics of the WSS sector render it essentially unprofitable for the private sector: “costs are too high to manage without raising tariffs, which people oppose...most utilities are in such disarray that it’s a bad investment.”²²⁸ He further implied that decentralization policies advocated by the Bank would be ineffectual or counterproductive, since “utilities are run at the municipal level, which usually doesn’t have the power to tax or give subsidies that would allow for investment in the utility to avoid raising tariffs.”

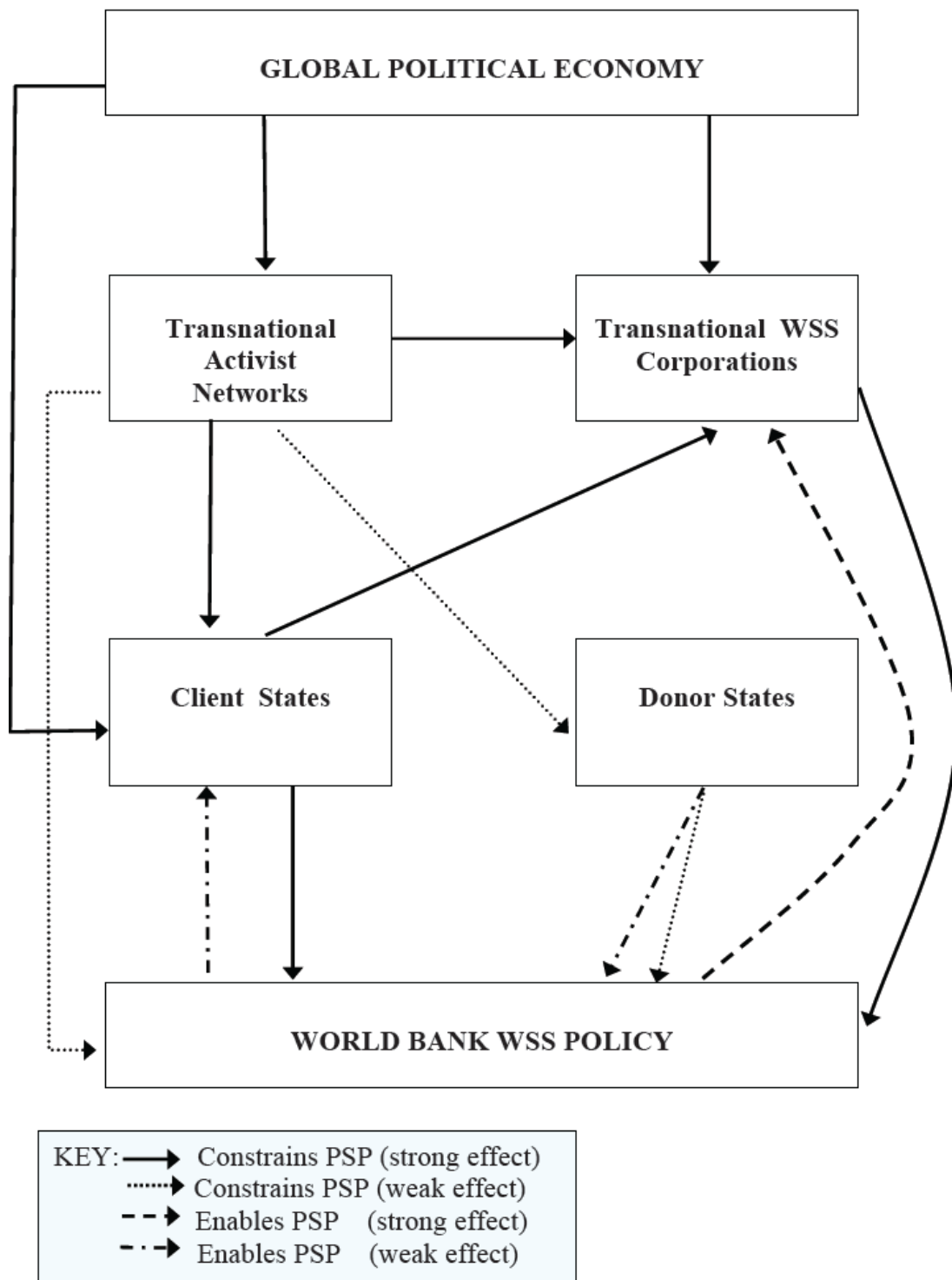
In 2001 the market for PSP was dominated by five TNCs (Suez, Veolia, SAUR, Agbar Water and RWE) which controlled 71 percent of the market: by 2010 their market share had dropped to 32 percent.²²⁹ In 1999, 84 percent of private WSS companies covered by Pinsent Masons annual Water Yearbook were in OECD countries; by 2010 this figure had dropped to 45 percent. While Philippe Marin and former Bank officials like to cite the rise of small regional operators as a trend which has counteracted the decline of TNC investment, the scope and scale of that investment (with the exception of China in some years), nowhere approaches the actual investments of TNCs in the 1990s, nor expectations for their continued investment over the past decade. Moreover, there has been a precipitous decline in investment over the last few years in countries with national private operators, such as the Philippines and Malaysia.²³⁰

²²⁸ Interview notes shared by an NGO based on an interview with a former high-level water specialist at the World Bank, September 2008.

²²⁹ Water World.com. November 11, 2010. “Global Water Giants’ Market Shares Diminish.” <http://www.waterworld.com/index/display/article-display/2791326031/articles/waterworld/world-regions/europe/2010/11/Global-water-giants-market-shares-diminish.html> (November 12, 2010).

²³⁰ Pinsent Masons LLC 2010.

FIGURE 2
External Influences on Bank Agenda Change in WSS: 2000-2010



China and Singapore have been the major new entrants in the market for outward investment, but that investment is directed only at the Middle East, which including North Africa, is the only region to evidence an upward trend in investment since 2005.

The conclusion to be drawn here is that both the Bank and the private sector seriously misunderstood and/or turned a blind eye to the political economy of the WSS sector. Although it was always implicitly recognized that by dint of being a natural monopoly the water sector was less amenable to “unbundling,” there was little serious analysis in the 1990s of the political and institutional dimensions of privatization, alongside of a failure to appreciate the market risks involved in a globalized economy. Hence, six years after authoring *Reforming Infrastructure*, Ioannis Kessides acknowledged that the “water sector was the wrong sector for PSP.”²³¹ The failure of analysis, at least up until 2003 or so, derived from an internal culture in the Bank where ideology and knowledge production were mutually reinforcing, as discussed later in this chapter.

The Influence of Client Countries on Agenda Change

The reaction against the wave of neoliberal reforms of the 1980s and 1990s generated not only popular resistance, expressed through local and transnational activism, but also resistance and push-back from the Bank’s borrowing clients. Governments which had embraced market reforms, as Lora et. al. point out, now:

²³¹ Interview with Ioannis Kessides, July 15, 2010. Kessides noted that technological change in the telecommunications and transport sectors greatly facilitated the introduction of competition; in electricity, the most scope for competition in was in generation, followed to a lesser degree by distribution (though less so in transmission).

...increasingly tended to blame free-market policies for low economic growth and high unemployment. Not only has public opinion become opposed to further promarket reforms, but fatigue is also affecting the views of policymakers, the opinions of international organizations, and the prescriptions of top international economic advisers.”²³²

Estache (2006) contextualized the dilemma for political leaders, noting that the assessment of the fiscal impact of PPPIs was a “hotly debated topic” among policymakers. Specifically, the macroeconomic reforms required in the wake of financial crises were constraining “fiscal space” for developing countries, and had the effect of rationing the infrastructure sectors. While the short-run payoffs from PSP were significant in terms of public savings, the long-run story was more nuanced and “at the core of the current debate:”

The concern for affordability of public services is currently so clearly at the top of the politicians’ priorities that subsidies for both operating and capital expenditures tend to last longer or crawl back over time... Even where reforms included major tariff rebalancing and initial subsidy cuts to increase sector autonomy in a fiscally sound environment, the public sector eventually returned to the subsidization of the sector.²³³

For utilities in particular, Estache adds, this implies that additional revenue from taxes introduced by governments to recapture some of the efficiency gains of private operators were not enough to offset additional requirements for subsidies. As I note with respect to Uruguay, Estache acknowledges that in some countries privatization is not the right fiscal choice either in the short- or long-term, owing to the significant contribution of SOEs to government revenues.

The backlash against privatization policies in WSS in Latin America found expression in national campaigns and the regional transnational advocacy network,

²³² Lora, Panizza, and Quispe-Agnoli 2004, 11-12.

²³³ Estache 2006, 11-12.

Red VIDA, discussed in Chapter 5. It also translated into ballot-box victories for left-wing governments: cumulatively, as of 2008, eleven of eighteen major countries in Latin America were headed by left-of-center presidents. These countries accounted for 65 percent of the 350 million people who live in the region.²³⁴ Beginning in 2003, leftist candidates won in countries where water projects with PSP had met with popular opposition, leading in many cases to early terminations, cancellations and withdrawals. These countries included Argentina, Bolivia, Ecuador, Nicaragua, Peru, and Uruguay. Political scientist Susan Stokes makes the point that several center-left governments in Latin America were not against open markets and globalization so much as they were responsive to pressures to expand spending and “upscale” the state once again to address social issues and priorities.²³⁵

Figure 2 illustrates the changed relationship between the Bank and client states in the past decade compared to the 1990s (see Figure 1). Opposition to privatization coupled with increased sources of credit for certain middle-income client countries (e.g., China, India, and Brazil)²³⁶ constrained the Bank in pushing PSP policies, as it increased its willingness to soften PSP conditionalities or eliminate them entirely. The Uruguay case study illustrates the Bank’s willingness to not only continue lending after PSP in WSS was constitutionally prohibited, but to increase its lending to the country. The Bank also had to acknowledge that first-generation, “orthodox” PSP prescriptions could no longer be required of borrowers. In Uganda,

²³⁴ Stokes 2009.

²³⁵ Stokes 2009.

²³⁶ A former senior water advisor at the Bank, and one of the architects of PSP policies, stated that China, India and Brazil didn’t find the Bank to be “relevant to them anymore. They can access more money with fewer requirements from other sources, including the regional development banks which are less cumbersome than the Bank.” Interview notes shared by an NGO based on a interview with a former senior World Bank water official, February 2009.

for example, a “poster child” country that the Bank has invoked for successful reform of the public sector utility, the Managing Director of the Uganda National Water and Sewer Corporation commented on a panel at Water Week 2009:²³⁷

We endeavored to involve the private sector, but it didn’t work...Large private operators were looking for millions in return. We’ve had to look at internal finance...indexing tariffs to energy and inflation and subsidizing connections. [But] tariffs won’t get us to full cost recovery. Sixty percent must come from outside.

Confirming this drop-off on the demand and supply side, a consultant to the World Bank told me she knew of only two (non-IFC) Bank loans for PSP in the last two years, and that “private sector involvement in management, lease, and affermage contracts is definitely low in World Bank supported projects.”²³⁸

Transnational Activist Networks’ Influence on Bank Agenda Change

The influence of TANs on Bank agenda change in WSS is touched on here and discussed more fully in Chapter 5. As Figure 2 illustrates, TANs’ effects on the Bank were mediated through country-level campaigns (strong constraining effect), TNCs (strong constraining effect), donor states (weak constraining effect), and in direct engagement with the Bank, albeit with only a weak constraining effect, if any. These effects are not surprising, insofar as TANs have expended their greatest energy building alliances and providing support to country-level campaigns. These in turn have targeted TNCs’ investments and, in most instances, the state. Vicky Cann, who was the lead water campaign organizer for the U.K.’s World Development Movement

²³⁷ Dr. William Muhariwe, Managing Director, Uganda National Water and Sewer Corporation, World Bank Water Week, February 2009.

²³⁸ Email from Interviewee 7, November 22, 2010.

(WDM) and an international spokesperson for anti-privatization TANs, told me that “none of the shifts [in bilateral and multilateral development finance institution (DFI) policies] that have happened would have happened without movements on the ground—in Argentina, Bolivia, Jakarta, Manila, Tanzania, Delhi, South Africa or Ghana.”²³⁹ Direct engagement with the Bank has been minimal in contrast to country-level campaigns, and largely ineffectual; the willingness to engage reflected schisms among NGOs. In some instances, TANs were successful in constraining bilateral DFI assistance conditioned on PSP. WDM’s campaign, which targeted the U.K.’s Department for International Development (DFID), was one such success. Cann told me that it succeeded in getting DFID to agree to curtail all WSS technical assistance for PSP and any conditionality linked to its bilateral aid.²⁴⁰ On the other hand, she also said that while DFID de-linked its own aid from PSP conditionality “it was happy to continue to work with other MDBs such as the World Bank and IMF in promoting PSP.”

TANs did not focus a great deal of energy on pressuring the Bank via donor states, likely because they did not see this as yielding a good return on investment of resources. Northern donor countries either favored private sector development policies in the Bank, corresponding to their own domestic political preferences (e.g., the U.S., Canada, and the U.K.), and/or were home to some of the biggest water TNCs (e.g., France and Germany). However, TANs did campaign to pressure donor countries to withdraw contributions to the Bank’s pro-privatization advisory facility, PPIAF. The WDM submitted testimony to Parliament in which it argued that “PPIAF

²³⁹ Interview with Vicky Cann, World Development Movement, London, U.K., March 10, 2009.

²⁴⁰ Interview with Vicky Cann, World Development Movement, London, U.K., March 10, 2009.

plays a significant part in eliminating the choice of poor country governments to decide their own development path...by collaborating with conditions imposed by international financial institutions, failing to consult on all possible reform options for the sector, and undertaking pro-privatisation consensus-building work,” including public relations campaigns.²⁴¹ The WDM stressed that the DFID created PPIAF jointly with the World Bank in 1999, had been by far its largest contributor to date, and argued for a termination of public monies to support PPIAF’s agenda. A corollary campaign launched by an alliance of European water activists succeeded in getting Norway to withdraw its funding for the Bank’s Public-Private Infrastructure Advisory Facility (PPIAF) in 2007.²⁴² But this was largely symbolic, as Norway’s contributions to PPIAF from 1999-2006 totaled only \$2.5 million compared to the U.K.’s contribution of \$63 million during the same period.

Donor States’ Influence on World Bank Agenda Change in WSS

As suggested in the preceding section on TANs, the public record does not indicate that the Bank’s largest donors, in toto or individually, exerted strong pressure to either expand or constrict the Bank’s PSP policies. These were in any case, forcibly in retreat by the middle of the decade. Activists would claim that until the last few years, donors were largely on board (literally and figuratively) with the

²⁴¹ Memorandum submitted by the World Development Movement to the U.K.’s House of Commons, International Development Committee, Select Committee Inquiry on Water and Sanitation. October 2006. Published April 17, 2007. : <http://www.publications.parliament.uk/pa/cm200607/cmselect/cmintdev/126/126we01.htm> (January 3, 2011).

²⁴² The NGOs included the Corporate Europe Observatory, the U.K.-based World Development Movement, the Norwegian Association of International Water Studies (FIVAS), Friends of the Earth International, and the Transnational Institute. <http://archive.corporateeurope.org/pdfs/ppiafsummary14052007.pdf> (December 3, 2010)

Bank's PSP agenda. For example, European activists note that the European Union's:

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[d]eeply entrenched neoliberal view on water was evident in the launch of its water facility in 2003, which clearly stated its intention to expand the role of private sector involvement in water, and specifically to help EU private sector water companies expand into developing countries. EU Water commissioner, Louis Michel, backed up these ideological convictions with considerable cash, investing one million Euros per year into the Public Private Infrastructure Advisory Facility (PPIAF) as well as setting up its European equivalent, the Private Sector Enabling Environment Facility (PSEEF) with a budget of 20 million Euros.

In addition to the campaign to pressure donors to withdraw contributions from PPIAF, it is plausible to infer that other campaigns, such as Red VIDA's campaign against Suez (supported by Danielle Mitterand of France Liberté), at least made certain donor states more sensitive to their voting positions in the Bank, especially as prospects for private investment continued to dwindle. Figure 2 therefore indicates, albeit somewhat speculatively, that donor states' influence in aggregate over the decade likely ran in both directions: weakly enabling and constraining the Bank—depending on the particular donor state and year. The more important point is that donor states were less influential actors in changing the Bank's agenda than were client states, TNCs, and TANs.

An interesting twist during this decade involved the U.S. under the Bush administration. The U.S. is the most powerful donor state to the Bank, controlling 16.4 percent of the votes on the IBRD board, and 13.4 percent of the votes on the International Development Association (IDA) Board. Donor states can directly influence policy change at the Bank through the threat of withholding replenishments

²⁴³ Buxton, Nick. September 24, 2010. "Is the Water Privatisation Tide Finally Turning?" http://www.waterjustice.org/?mi=1&res_id=284 (January 7, 2011).

for the IDA, which is the concessional-loan window of the Bank; contributions to IDA's replenishment must be approved by Congress. As Weaver points out, this "power of the purse" has been effectively used by environmental NGOs through legislative strategies over the past three decades to push for significant changes.²⁴⁴ Not surprisingly, conservative governments, including the U.S. under the Bush Administration, used replenishments to push for private sector development. But contradictions could surface, as occurred during negotiations for the thirteenth IDA replenishment in 2001. Funding for the replenishment was held up past the December 2001 deadline due to a dispute between the U.S. and its European counterparts. The dispute centered on a condition the U.S. attached to the funding that would mandate that at least 50 percent of IDA disbursements be in the form of grants rather than loans, and surprisingly, over the role of the private sector in Bank projects for essential services, such as health care, education, and WSS.²⁴⁵ Although some NGOs were suspicious of the Bush Administration's ultimate intent, the grants proposal was welcomed by a coalition of other U.S. NGOs, including several that had pushed for de-linking essential services from PSP. In a joint statement, Friends of the Earth, the AFL-CIO, the U.S. Conference of Catholic Bishops, and RESULTS, an NGO focused on "international economic justice," urged Congress to require the Treasury Secretary to instruct the U.S. Executive Director to the World Bank to promote the 50 percent grants target along with the de-linking of PSP to funding for

²⁴⁴ One example of this is the 1989 Pelosi Amendment that directly led to the establishment of environmental impact assessment and safeguard measures in Bank lending operations. Weaver 2007.

²⁴⁵ Weaver 2007.

essential services.²⁴⁶ However, European countries ultimately prevailed, and donors agreed in July 2002 that 18 to 21 percent of aid during IDA 13 should be in the form of grants. Moreover, a Congressional Research Service analyst who followed this debate closely noted that in contrast to earlier Bush Administration statements, the final IDA 13 Agreement made no mention of health, education, and WSS as priority areas for grant funding.²⁴⁷ Further, the U.S. threw its full support to private sector development in the fourteenth IDA replenishment in June 2005. It exhorted the IDA to work more closely with the IFC to promote private sector growth in developing countries, and to take other steps designed to encourage private sector development.²⁴⁸

4.3. Internal Influences: Knowledge Production, Neoliberal Ideology and the Bank qua Bank

Knowledge Production versus Neoliberal Ideology

In Chapter 3 I traced the trajectory of the Bank's knowledge production over the last decade. Outputs included the 2004 Operational Guidance to staff, major policy research papers on PSP such as *Reforming Infrastructure*, and what the Bank acclaimed as milestone studies by Marin and Gassner. Marin is situated in the Bank's "Water Anchor," a specialized unit of water experts which provides expertise

²⁴⁶ Conversation with Rick Rowden, RESULTS, December 2001. See also: Bretton Woods Project, March 25, 2002. *Taken for granted? US Proposals to Reform the World Bank's IDA*. Update 27. <http://www.brettonwoodsproject.org/art-16169> (November 21, 2010). Other NGOs, such as the U.S.-based Globalization Challenge Initiative, were suspicious of the potential link between the grants plan and PSP in essential services. But Deputy Assistant Secretary of Treasury Bill Schuerch maintained that the USG's proposal for using grants to provide essential services did not include private sector activities or private provisioning of services.

²⁴⁷ Sanford. September 2004.

²⁴⁸ Sanford. May 3, 2005, 3–4.

to country and regional directors and TTLs; helps formulate, implement, and coordinate the Bank's water sector strategy; monitors and evaluates the Bank's water portfolio; is responsible for global advocacy and partnerships; and works with other Bank networks and DEC to create and disseminate knowledge.²⁴⁹ There are about 150 urban WSS specialists within the Water Anchor, most dispersed among countries around the world. As a senior WSS specialist in the Water Anchor told me, the Anchor is a "laboratory where ideas evolve, where we learn by doing. Buenos Aires [the failed water concession] was a big learning experience. There were other high-profile cases which imploded."²⁵⁰ On the other hand, another WSS specialist in the Water Anchor admitted that "dissemination and coordination of WSS policy in the Bank was hard, because staff are scattered all over the world and there is no real central direction"²⁵¹ As I discuss below in the section on the "World Bank as a Bank," the learning that does occur within the Bank is often trumped by, or competes with, other functional imperatives. In particular are the incentives for staff to "churn" loans, regardless of whether or not the loans incorporate recommendations from Bank researchers, or take into account prior experiential learning.

I would argue for distinguishing between knowledge production alone and the conjoint production and application of knowledge, or what might be viewed as *sustained* learning—the systematic application over time of acquired knowledge. As Figure 3 illustrates, conflicts within the Bank's organizational culture and between its functional roles (i.e., knowledge production versus acting like a bank) have militated

²⁴⁹ The Water Anchor is a unit within the Energy, Transport and Water Department of the Sustainable Development Vice Presidency of the World Bank Group.

²⁵⁰ Interview 2.

²⁵¹ Interview notes provided by an NGO based on an interview with a senior World Bank water official, May 2009.

against sustained learning with respect to PSP in WSS. It is much easier to pinpoint changes in “thinking” about PSP within the Bank than it is to point to how this thinking (or iterative re-thinking) has led to systematic changes in Bank practice. Changes in Bank practice have certainly occurred, such as the decline in IBRD and IDA lending for WSS that includes PSP conditionality, the recognition that subsidies must be a component of water provision to the poor, and the recognition that full-cost recovery (FCR) is far more ideal than it is achievable. The decline in loans with PSP conditionality is arguably more a function of external influences than internal factors, as I described in Section 4.2. But the conflicts between ideology, knowledge production, and preeminently, the Bank’s role qua bank, have rendered its policies and agenda contradictory and often at odds with the direction suggested by “lessons learned.” Key among these lessons has been the importance of putting in place institutions and mechanisms to govern and regulate any public service provider, whether publicly or privately operated.

The top two brackets of Figure 3 illustrate the push and pull between knowledge production and the still-dominant neoliberal ideology of the Bank: on the one hand mutually-reinforcing, on the other hand conflictual. Research outputs, such as the studies by Marin, Gassner, and Kessides, put forth conclusions that acutely narrowed the advantages that could be ascribed to PSP and sharply delimited its applicability. Yet each study, especially Marin’s and Gassner’s, clung in the end to arguing for the superiority of PSP on the slender thread of improved private sector efficiency obtained almost exclusively through labor shedding. Many other examples of new knowledge production can be cited that would have been, or would be

expected, to change Bank policies and practice in a systematic fashion.. For example, the Independent Evaluation Group's 2010 evaluation of World Bank support to WSS between 1997-2007 critiqued two linchpins of Bank PSP policies: full-cost recovery and decentralization.²⁵² The IEG's report criticized the Bank for failing to broaden access to sanitation and to tackle cost recovery: "cost recovery in Bank-supported projects has rarely been successful: only 15 percent of projects that attempted cost recovery achieved their goal."²⁵³

On decentralization, a strategy favored by the Bank to promote PSP, the IEG found that:

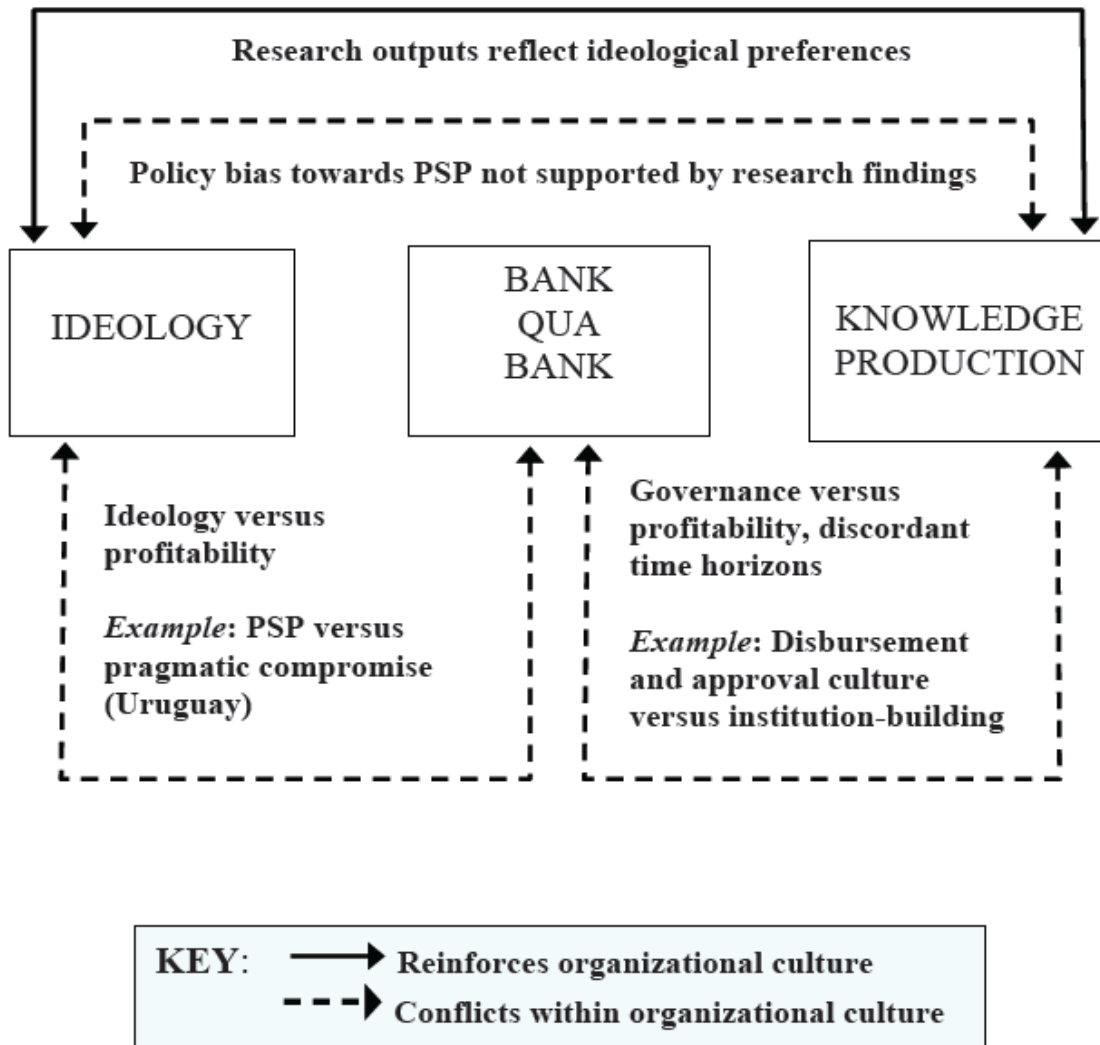
[o]nly 50% of projects that aimed to strengthen local capacity and two-fifths supporting institutional reform were successful... budgets and authority didn't match responsibility. Positive outcomes usually associated with decentralization, such as increased accountability, ownership, empowerment and social cohesion, were achieved in a minority of cases...well-maintained regulatory systems have remained elusive, and this has limited PSP.²⁵⁴

²⁵² Independent Evaluation Group/World Bank 2010.

²⁵³ Independent Evaluation Group/World Bank 2010, vii.

²⁵⁴ The World Bank distinguishes between several types of "decentralization," including political, administrative, fiscal and market concepts. The Bank has strongly linked coordinated decentralization to PSP in WSS, arguing that "Water was treated primarily as a social good under the centralized, supply-drive approach.... Its positive health and environment externalities seemed to justify the view of both government and communities that free water was a fundamental right of the people... In theory, decentralized water services should improve governments' ability to treat water as an economic good and assess user charges that will create incentives for efficient water use as well as finance improved service delivery." World Bank Group, Decentralization and Subnational Regional Economics. "Service Delivery. Decentralized Water Services: Irrigation and Water Supply and Sanitation. : <http://www1.worldbank.org/publicsector/decentralization/service.htm#5> (November 28, 2010).

FIGURE 3
Internal Influences on Bank WSS Policies



World Bank management has an opportunity to respond to IEG evaluations, and in this case, it devoted the bulk of its response to defending its approach to cost recovery:

Evidence shows that achieving full cost recovery in water services delivery is an ultimate goal, which although desirable economically is difficult and rarely achieved in practice. Underpricing of water supply services is widespread, even in upper-middle-income countries and high-income countries... estimates show that 39 percent of water utilities have average tariffs that are set too low to cover basic operation and maintenance (O&M) costs... [a] further 30 percent have tariffs that are set below the level required to make any contribution toward the recovery of capital costs. Even in high-income countries, only 50 percent of water utilities charge tariffs high enough to cover O&M costs and partial capital recovery.²⁵⁵

The Bank continued this argument by stressing that some degree of general subsidy is the norm: even in high income countries political constituencies make raising tariffs unlikely, and in Bank client countries, low tariffs (below full cost-recovery levels) ensure that water services are kept affordable. It concluded by stating that the [World Bank] “is proactively looking at who will pay for uncovered costs.”

This is a very different posture and emphasis than that adopted by the Bank in prior years; for one, rarely has the Bank highlighted how far OECD countries are themselves from the goal of full cost recovery.²⁵⁶ This defensive response by the Bank to the IEG is noteworthy not only because it constitutes something of a role reversal (one would more readily expect the IEG to critique the Bank for unrealistic assumptions about FCR when serving the poor), but equally because it captures a

²⁵⁵ Independent Evaluation Group/World Bank Group 2010, xiv.

²⁵⁶ An presentation by the OECD on “Financing and Pricing Water” during the Bank’s Water Week 2009 noted that “there was a wide discrepancy in the relative proportion of tariff, taxes or transfers...we were surprised by the diversity of water financing among OECD countries, especially financing through taxes.” Peter Börkey, Environment Directorate, OECD, February 18, 2009. “Financing and Pricing Water: An OECD Perspective.” World Bank Water Week, Washington, D.C.

fundamental contradiction that the Bank has been unable or unwilling to resolve. Setting tariffs at a level that allows for FCR has always been considered necessary as a dependable source of revenue for attracting private finance and operators. As World Bank water finance expert Aldo Baietti wrote in 2005, achieving long-term financial sustainability for water utilities in developing countries should entail (a) lessening the dependence on governmental subsidy transfers, (b) increasing reliance on user tariffs as the main source of internally generated financing, and (c) gaining financial independence to source external private financing based on the enterprise's own creditworthiness.²⁵⁷ But several years later the Bank was admitting that it would have to look elsewhere—that “elsewhere” being the only other two sources of finance for utilities, taxes or donor transfers. This push and pull between learning and the doctrine of market supremacy was evident in an interview I conducted with Baietti in June 2009. Baietti noted several ways in which the Bank had changed course in its WSS projects:²⁵⁸

Planning and feasibility assessment for Bank projects are very different than ten years ago. Donors and the MDBs were incentivized to go into big projects, with inefficiencies built in from the outset. For example, the Bank preferred bulk treatment projects over financing distribution networks. Now the emphasis is on demand-based approaches to planning—we do market surveys...We overestimated the poor's “willingness to pay” (WTP) for water based on the assumption that they bought all their water from expensive tanker trucks. But this was wrong...they use different sources for different needs.

Estimates of the poor's WTP undergirded the Bank's belief that tariffs could be raised over time to approach FCR levels. Baietti's comments reflected both a criticism of the Bank's penchant for safe, profitable projects (bulk treatment facilities) that were

²⁵⁷ Baietti and Curiel. October 2005.

²⁵⁸ Interview with Aldo Baietti, June 30, 2009.

“supply-side” driven, as I interpreted this—by the Bank’s interests, and internal learning about differentiated water usage and expenditure among the poor (one wonders why it took the Bank so long to identify these patterns).

At the same time, Baietti held firm to the belief that “public utilities could not be successful unless they had the same governance structure as the private sector.” This could be accomplished through corporatization, statutory codification of performance standards, and an expansion of the stakeholder base to include private bankers, consumers, and bondholders. The superiority of private sector operation stemmed from the profit-making incentive: performance failures were penalized through loss of shareholders’ equity. When I asked Baietti if in reality shareholders always did shoulder the burden of a failure in private operators’ performance—citing allegations and perceptions that often the public ended up footing the bill, Baietti responded that this “all had to do with putting together a good contract. In the contracts I’ve put together, shareholders do pay in foregone profits.”²⁵⁹

I subsequently raised Baietti’s points in an interview I conducted with internationally recognized water expert Peter Gleick, President of the Pacific Institute for Studies in Development, Environment and Security.²⁶⁰ Gleick had the following reactions to Baietti’s comments on the incentives that ostensibly drive the private sector to outperform the public sector:

²⁵⁹ Interview with Aldo Baietti, June 30, 2009.

²⁶⁰ Interview with Dr. Peter Gleick, Pacific Institute, Oakland, California, July 6, 2009. Gleick was elected an Academician of the International Water Academy in Oslo, Norway in 1999; elected to the National Academy of Sciences, Washington, D.C., in 2006; and is the author of numerous scientific papers and books, including the biennial water report “The World’s Water,” and “Bottled and Sold: The Story Behind Our Obsession with Bottled Water.” For a full biography, see: http://www.pacinst.org/about_us/staff_board/gleick/ (December 17, 2010).

There are two key issues here. No one disputes that private operators can be shown to be better. But there are other measures for which they *can't* be shown to be better: protecting certain aspects of the public good. There's historical evidence that the public sector can be equally good. There are examples of public utilities equally good as private ones; the best public and private utilities are in the developed world. The reasons both types fail has to do with governance and community involvement.

With respect to Baietti's argument that sanctions against performance failure are inherent in well-written private contracts, Gleick responded:

There's theory versus reality. The World Bank has a model of the private sector that doesn't exist, it's a moving target. The Bank has shifted from pro-private to agnostic because reality has been shown to be more complicated. They had to confront reality...The success of certain private water efforts are not necessarily an indicator of the success of the private model. Any successful water agency will have the following characteristics: availability of capital, expertise of the workforce, oversight of public agencies, and clarity of contracts...Contracts are a good example of the problem with privatization. There's no standard language, every contract is individually-negotiated. We need private suppliers to agree to a standard contract specifying how prices get adjusted. And you need governments to accept guidelines [for contract negotiations].

Gleick agreed with Baietti's point that shareholders will put pressure on a company to succeed, "but in order to provide the service they do, private providers have to take more money out of the system—they have to charge more. Other factors you have to consider are ecosystem protection, water quality maintenance, and the public good. Both public and private operators require strong government oversight." Gleick noted that there had been a sea change in the debate because of some very public failures of PSP.

The debate has moved from ideology toward a more practical approach; there are rarely cases of purely public or purely private. Having said this, you're more likely to get a better outcome on the public side. It's plausible to design a purely public system to meet all our needs.

At the end of my interview with Aldo Baietti, he commented that the “social agenda was problematic—issues of governance, regulatory frameworks, ensuring investments from the outset, and determining WTP.”²⁶¹ Indeed, there is a good degree of theoretical and rhetorical convergence between Gleick’s and the Bank’s emphases on governance, performance incentives, and accountability. The difference lies in the Bank’s almost reflexive reversion back to the private sector as the *sine qua non* for improvement in utility performance—all evidence about the critical enabling role of institutions and accountability mechanisms notwithstanding. This was reinforced yet again in my July 2010 interview with Ioannis Kessides (author of *Reforming Infrastructure*, 2004), and Lead Economist in the Bank’s Development Research Group in the DEC.²⁶² Six years out from his publication, Kessides stated to me that there were “significant differences across countries as to whether PSP can work. Public operators can be as good as private, but that totally depends on institutions.” He used the example of Sweden versus his native Greece, where he characterized public services as rife with corruption. He agreed with my assessment that the main result of Marin’s and Gassner’s studies showed that most of the positive outcomes from PSP were in terms of operational efficiency which derive from rationalizing labor, and that it was not possible to identify the beneficiaries of this increased efficiency—in particular, whether the poor benefited. Yet he seemed to downplay the emphasis in his 2004 report on the need for better data on equity and distributional impacts, and did or could not confirm whether the Bank had improved its capacity in this area. Kessides did strenuously argue, however, that in countries

²⁶¹ Interview with Aldo Baietti, June 30, 2009

²⁶² Interview with Ioannis Kessides, July 15, 2010.

with corruption or undeveloped institutions, PSP will always be preferable to the public sector because the public sector will not serve the interests of the poor. Finally, I asked Kessides to what extent the policy advice contained in research publications were incorporated into Bank loan packages by country and regional directors and task team leaders (TTLs), and influenced changes in Bank practice.²⁶³ Kessides laughed somewhat ruefully at this question, and without saying so bluntly, implied that this was at the discretion of country directors and TTLs. This provides a segue into the next section, which discusses the critical role of the Bank qua “bank” in determining how knowledge production and ideology have conflicted with the “disbursement imperative” and approval culture which condition Bank staff’s behavior and the composition of lending.

The World Bank as a Bank

Several former and current senior Bank officials have confirmed in interviews that the Bank’s WSS strategy is driven by regional and country directors.²⁶⁴ A professor at an Ivy League university who previously worked extensively on water resource issues inside the Bank and was a country director for a large middle-income client country stated that there was “no real Bank strategy on water—it’s country driven.” Power accrues to country or regional directors because they are the single

²⁶³ Each World Bank project is handled by a “Task Manager” or “Task Team Leader” (TTL) who has overall responsibility for a project from inception to completion, including monitoring, procurement, and consultant selection. TTLs are selected from Bank professional staff based on experience and professional training, and may sometimes change over the course of the project cycle (typically seven years). TTLs have a large role in determining the quality and extent of stakeholder participation in a project and are the point of contact for civil society engagement. WaterAid, March 2005. *World Bank Primer for WaterAid Staff and Partner Organizations*, author’s personal copy.

²⁶⁴ Interview 2, and interview notes shared by an NGO based on interviews with several former senior World Bank water advisors and specialists, conducted between September 2008 and February 2009.

person in charge of a country or region: they manage across World Bank “network” or thematic areas by apportioning country budgets to network projects. As discussed previously, country directors and TTLs have an array of strong incentives to “move” projects, including individual professional rewards as well as the accumulation of more organizational resources. Another professor at an Ivy League university who has consulted to the Bank on infrastructure issues and WSS corroborated this view: “Even people who are in sectors, like water experts, have more loyalty to their country offices than their departments because they’ll get promoted that way...Country officers are loan officers; they just want to get projects out the door. They’re promoted on the quantity of projects.”

The bottom half of Figure 3 illustrates the structural conflicts between the “Bank qua bank” and knowledge production and ideology. A key example of the conflict between lessons learned and the desire to “move” project loans is the necessity of well-designed and functioning governance and regulatory infrastructure for utilities. But institution building is a complex, medium-to-long term process, and results are often not readily measurable. This is at odds with the short-term project cycle in the Bank and the incentives which support it. Yet as all the Bank literature reviewed in Chapter 3 shows, getting WSS services to the poor depends exactly on “getting institutions right.”²⁶⁵ By the same token—and somewhat paradoxically, the Bank’s role qua bank can also trump ideological proclivities. As I demonstrate in the case study of Uruguay in Chapter Six, the Bank actually increased its lending to

²⁶⁵ Professor Karen Bakker, Director of the Program on Water Governance at the University of British Columbia, has written that governance failure is at the heart of the challenge to deliver urban water supply to poor households, regardless of whether the monopolistic provider is public or private. Bakker, K. and Koy, M. 2008. “Governance Failure: Rethinking the Institutional Dimensions of Urban Water Supply to Poor Households.” *World Development*, 36(10), 1891-1915.

Uruguay after that country passed its 2004 constitutional reform which outright prohibited PSP in WSS. Admittedly, Uruguay is not a poor country characterized by a “basket case” public utility riddled with severe inefficiencies, poor service, and corruption. But it had been a country that the World Bank and Inter-American Development Bank had very much expected to increase its private sector involvement in water utilities following on numerous prior loan conditions seeking this outcome. A senior analyst in the Water Anchor confirmed that ideology would take a back seat to lending volumes if necessary: “In the 1990s the infrastructure sector was a sunset sector; the private sector was ascendant. Lending volumes require us to get back into infrastructure. We’ve never walked away from a country because of PSP.”²⁶⁶

4.4. A Partial Learner in an “Identity Crisis”

Catherine Weaver argues that Bank’s external political and ideational environment “is not a competing variable with its internal culture and bureaucratic politics...[there is a] dynamic interaction between the two over time...Borders between the internal and external environments are fluid, malleable, and intersubjective, hard to disaggregate.”²⁶⁷ This chapter has revealed this to be the case with respect to agenda change in PSP. The Bank has produced research that reflected experiential learning and that has overturned at least one previous generation of thinking about PSP. Experiential learning occurred because of a combination of external and internal influences impossible to segregate or to which specific weights can be assigned. The flight of WSS service TNCs forced the Bank back to the

²⁶⁶ Interview 2.

²⁶⁷ Weaver 2007, 495.

drawing board to consider alternative sources of investment finance, which pulled it back into the domain of public finance. Transnational activist networks, as I discuss in the next chapter, put the Bank in an uncomfortable global spotlight, forced the Bank to recalibrate the weights assigned to water as a public versus economic good, empowered both civil society and client states which were disaffected with PSP, and compelled the Bank to reevaluate PSP's effects on poverty reduction (as did water experts). Client states which had suffered politically from the uptick in loans with PSP conditionality, reduced their demand for such loans.

But the Bank has shown itself ultimately to be only a partial learner caught in an identity crisis. Conflicting functional roles and structural asymmetries (e.g., between experts and TTLs/country directors) have militated against sustained learning. Tensions between knowledge production and ideology have not been resolved, as reflected in the top half of Figure 3. Despite the intellectual recognition that both private sector and public sector utilities' performance is dependent on well-functioning enabling institutions, the Bank continues to revert to ideological recalcitrance in favoring the private sector. It refuses to genuinely embrace the agnosticism that it has rhetorically professed for the last six years. However, under the right circumstances (e.g., a middle-income client country that won't leave egg on the Bank's face in poor evaluation results), Bank staff will readily assume the role of the consummate, pragmatic loan officer--looking out for its institution's bottom line.

Chapter 5: Transnational Activism Against WSS Privatization, 2000-2010

Street protesters have it exactly right when they argue that the economic policies imposed on developing nations by the International Monetary Fund and World Bank have hammered the poor.... “structural adjustment programs”-- a chilly bureaucratic euphemism if ever there was one--attract foreign investment and stimulate the business climate (and the local elites). But the programs also drive up the cost of living, rip holes in already tattered safety nets, and help kill small farms and businesses....The IMF and the World Bank admit the problem while insisting that their policies will boost living standards over the long term. But people in the Global South have lost patience with such talk.

-- Time Magazine ²⁶⁸

The message we bring is that resistance is possible, that victory is possible. Our work has given democracy new substance in our country... We are about to win our first victory against the neoliberal model.

-- Oscar Olivera, one of the principal leaders of *La Coordinadora para la Defensa del Agua y Vida* (The [Coalition] for the Defense of Water and Life), Cochabamba, Bolivia. ²⁶⁹

5.1. Introduction

A number of factors converged at the turn of the twenty-first century to create a fertile environment for transnational collective action against water privatization.

The most important enabling condition was the burgeoning “anti- or alter-globalization movement.”²⁷⁰ As Frieden writes:

²⁶⁸ Pooley, Eric. April 24, 2000. “The IMF: Dr. Death?” *Time Magazine* 155 (16).

²⁶⁹ Linda Farthing and Ben Kohl. March-April 2001 “Bolivia’s New Wave of Protest,” *NACLA Report on the Americas*, 34(5).

²⁷⁰ Geoffrey Pleyers writes that the neologism “alter-globalization” emerged in late 2001 to counter what many activists felt was the pejorative term ‘anti-globalization:’ “alter- conveys both the idea of

Very public challenges to global capitalism emerged in the last years of the century. In protests from Seattle to Prague, Washington and Genoa, millions of activists targeted the [World Trade Organization] WTO, the World Bank, the IMF, the Group of Seven industrial countries, and other international economic organizations at the types of meetings that had previously attracted no attention. As the WTO's [1999] ministerial meeting and the Seattle protests wound down, antiglobalization author and activist Naomi Klein wrote that they reflected a "face-off...between two radically different visions of globalization. One had had a monopoly for the last 10 years. The other just had its coming-out party."²⁷¹

The "Battle of Seattle" in 1999 was hardly the beginning of transnational activism against the IFIs or international organizations focused on trade and investment liberalization, but it signified a coalescence of critical oppositional mass. Several key NGOs which had been active fighting the IFIs' structural adjustment policies (SAPs), the Multilateral Agreement on Investment (MAI) and trade liberalization negotiations under the Generalized Agreement on Tariffs and Trade (GATT) and its successor, the WTO, migrated to--or added to their portfolio a new issue area: privatization of "essential services," including WSS. Transnational activism against the privatization of urban WSS utilities burgeoned over the first five years of the 21st century, surfacing across continents in countries at different levels of economic and political development. There are five background conditions I would identify in the global environment and political economy which made the issue of water privatization ripe for strategic social construction by activists and activist leaders, or "norm entrepreneurs:"

'another globalization' and the importance of constructing alternatives." Pleyers 2010. *Alter-Globalization: Becoming Actors in a Global Age*. Cambridge and Oxford, U.K.:Polity Books. Phillip Terhorst, an activist-intellectual who recently completed a Ph.D. on efforts to construct public alternatives to water privatization in Latin America traces the origin of the term to the 2002 World Social Forum's Charter of Principles. Terhorst 2008, 103-114."

²⁷¹ Frieden 2006, 459.

- The alarming depletion of the world's freshwater reserves and the concomitant threats to public health, political stability, and the environment
- The IFIs' extension of PSP in the 1990s to infrastructure services
- Accelerated investment by water TNCs in developing countries
- The inclusion of the services sector in trade and investment negotiations in the WTO's General Agreement on Trade in Services (GATS), in the Free Trade Agreement of the Americas (FTAA), and in bilateral and regional free trade agreements (FTAs); and allegations that bilateral investment treaties (BITs) undercut state sovereignty by privileging the interests of private investors; and
- The gradual accretion of political space for stakeholder participation in IFI projects and programs, including the 1999 introduction of the requirement for stakeholder participation in the formulation of Poverty Reduction Strategy Papers (PRSPs).²⁷²

This conflux of conditions both constituted and helped activists create a “political opportunity structure” to combat water utility privatizations.²⁷³ Conca notes that the political opportunity structure for mobilization was enhanced by the “availability of a series of events at which anti-privatization activists have been able to come together, exchange ideas, and forge tighter links,”²⁷⁴ including the World Social Forums and alternative events and venues at the World Water Forums. In

²⁷² PRSPs detailed the steps to be taken by low-income countries receiving concessional loans and debt relief under the Heavily Indebted Poor Countries' Initiative.

²⁷³ Khagram, Riker and Sikkink, eds.2002. The editors describe political opportunity structures as “consistent dimensions of the political environment which provide incentives for, or constraints on, people undertaking collective action...[they] provide resources for leverage and spaces for access.”

²⁷⁴ Conca 2005.

addition to exploiting and creating opportunity structures, I argue that transnational activist networks and anti-privatization campaigns around WSS grew and gained traction for several additional reasons, which I discuss further in Sections 5.2 and 5.3.

These are:

- The characteristics of the issue area. Water is both a tactile and symbolic issue with clear cross-cultural and cross-class resonance.
- The ability to frame the debate in multiple ways that invoked both rights-based norms and norms and ideas to counter the ideology of neoliberalism. In Section 5.3 I discuss four rights-based frames that TANs have used in campaigns and two frames that challenge precepts of neoliberalism.
- The characteristics of the target actors, in particular, the declared commitment of the multilateral development banks (MDBs) and bilateral aid donors to poverty reduction.

A Note on Nomenclature

Of the various typologies of transnational collective action propounded by scholars of social movement organizations,²⁷⁵ Khagram, Riker, and Sikkink's (KRS) definition of "transnational advocacy networks" (TANs) best approximates the fluid contours of cross-national coalitions and campaigns that have characterized activism against privatization of urban water and sanitation utilities. KRS define TANs as:

sets of actors linked across country boundaries, bound together by shared values, dense exchanges of information and services, and common discourses. The essence of network activity is the exchange and use of information.

²⁷⁵ Keck and Sikkink 1998; Tarrow 1998..

Networks do not involve either sustained coordination of tactics, as with coalitions, or mobilizing large numbers of people in the kind of activity we associate with social movements.²⁷⁶

TANs constitute the “most informal configuration of non-state actors” among the three configurations of collective action-oriented organizations that KRS describe—the others being “transnational coalitions” and “transnational social movements,” and represent the most common expression of collective action.²⁷⁷ The international NGOs and networks listed in Table 2 and discussed in Section 5.2 can *generally* be described as TANs. However, the lines between TANs and transnational coalitions or campaigns are often blurry.²⁷⁸ For the sake of narrative simplicity I will often use the colloquial phrase “anti-privatization movement” or “water justice movement” in this chapter.²⁷⁹ In doing so, I refer to the broadest patterns of activity and mobilization by TANs and national or local coalitions and campaigns, without implying the tight coherence ascribed to the term “movement” by TANs scholars.

²⁷⁶ Khagram, Riker, and Sikkink 2002, 7.

²⁷⁷ KRS and other TANs scholars argue that transnational coalitions involve a greater level of tactical and strategic coordination to publicly influence social change than is typically present in TANs. These shared tactics and strategies are transnational campaigns, which may blend institutional and non-institutional tactics. Transnational social movements are the most difficult form of transnational organization to create and sustain across space and time, requiring joint mobilization and the capacity to generate sustained social mobilization in at least three countries. Given the high threshold of coordination and temporal sustainability involved, true transnational social movements are rare.

²⁷⁸ For example, the National Coalition Against Privatization of Water in Ghana worked very closely on tactics and strategies, albeit not in all decisions taken, with transnational networks supporting and engaged in their campaign. The idea behind the formation of the Interamerican Network in Defense of Water, La Red VIDA, was to form a transnational regional coalition where member countries can be mobilized and coordinated in support of country-level campaigns.

²⁷⁹ The “water justice movement” has been described as “global citizen movements and critical non-governmental organizations” mobilized around “conflicts within and between countries and non-state actors (corporations, citizen movements) over water control, and “the underlying and critical struggle for hegemony between the competing definitions of water as either a fundamental human right or a commodity to be bought and sold.” Davidson-Harden, Naidoo, and Harden. November 2007. “The Geopolitics of the Water Justice Movement.” *Peace Conflict & Development*. Issue 11. http://www.peacestudiesjournal.org.uk/dl/PCD%20Issue%2011_Article_Water%20Justice%20Movement_Davidson%20Naidoo%20Harden.pdf (January 2, 2011)

Section 5.2 of this chapter provides an overview of the growth of country-based campaigns and TANs during the first half of the 2010s, followed by a discussion of the characteristics of campaigns, the major campaign actors among TANs and NGOs, and the IFIs and TNCs as key campaign targets. Section 5.3 discusses the frames that activists have exploited, created, and deployed to engender collective action. Section 5.4 discusses the reorientation of the anti-privatization movement in the second half of this decade to a focus on alternatives, specifically “reclaiming public water” through public-public partnerships (PUPs) and other forms of service provision which strengthen community involvement and democratic participation. Section 5.5 discusses TANs’ and CSOs’ engagement with the World Bank, including splits in the “movement” over this strategy. It concludes by analyzing the impacts TANs and CSOs have had on the Bank’s agenda for PSP in WSS, mediated by their effects on client states and TNCs.

5.2. An Efflorescence of Activism: Country-Based Campaigns and TANs, 2000-2005

Transnational activism and country-based campaigns against water privatization surged during the first five years of the 21st century. An array of coalitions, campaigns, and networks began forming to challenge the perceived “commodification” by TNCs and the IFIs of water resources and WSS service delivery. The widely publicized “shot across the bow” which thrust the issue into the international spotlight occurred in 2000 in Cochabamba, Bolivia when widespread popular protests spilled out onto the streets. The Bolivian Government’s decision in 1999 to lease the Cochabamba water system to Aguas del Tunari, a multinational

consortium of private investors which included a subsidiary of Bechtel Corporation, turned into what came to be known as the Water War, *la guerra del agua*.²⁸⁰ Aguas del Tunari was the sole bidder at auction and after closed-door negotiations was granted a 40 year concession to operate the water and sewer system. Within weeks of taking control of the municipal water system, the consortium raised rates by an average of 50 percent or more. Unable to pay their water bills, citizens' groups, including labor unions, neighborhood associations, peasant farmers, retirees, and water cooperatives, joined forces in a broad coalition known as the Coordinating [Coalition] for the Defense of Water and Life (*La Coordinadora para la Defensa del Agua y Vida*). After a general strike and widespread protests in early 2000 which spread beyond Cochabamba's border, in April 2000 a student protester was shot dead by a Bolivian Army captain, and a "state of siege" declared by the Government. By April 10, 2000, after six deaths, scores of injuries, and forced detentions of protesters by the military and police, the Government agreed to *La Coordinadora's* demand for the withdrawal of Aguas del Tunari. It promised the repeal of water privatization legislation and the return of the water system to the coalition and former municipal authority's control.²⁸¹

The victory was at the time both real and pyrrhic: Aguas del Tunari, Bechtel, and the other co-investors filed a complaint in 2002 with the World Bank's International Centre for the Settlement of Investment Disputes (ICSID) seeking restitution of \$50 million from the Government of Bolivia. Jim Shultz, Executive

²⁸⁰ Public Broadcasting System, *Frontline- World*. "Timeline: Cochabamba Water Revolt." <http://www.pbs.org/frontlineworld/stories/bolivia/timeline.html> (August 13, 2003).

²⁸¹ Public Broadcasting System, *Frontline- World*, 4

Director of the Democracy Center in Cochabamba and the only ongoing source of reporting to foreign audiences as the water revolt was underway, writes:

Very few people anywhere had ever heard of ICSID before Bechtel launched its Cochabamba case, and almost all of those who had were corporate lawyers. No ICSID case had ever faced a major challenge by citizens' groups...The Coordinadora and its international allies, including the Democracy Center, launched a campaign based on a clear strategy—in a legal forum handpicked by Bechtel, the key to winning was not to beat the company legally but to undermine its willingness to wage the fight...Google reports more than 127,000 Web pages linking Bechtel to the Cochabamba revolt, including stories by scores of major news organizations and by activist groups across every continent. Journalists and citizens who had never heard of Bechtel before knew the name first for its association with the water revolt and the company's attempt to squeeze \$50 million from some of South America's most impoverished families.²⁸²

Water revolt leaders formally requested legal status to join the ICSID case, with the legal backing of the environmental group Earth Justice and bolstered by an “international citizens’ petition” endorsed by more than 300 CSOs from 43 countries. In January 2006, Bechtel and its co-investors capitulated, signing a formal agreement in which they abandoned their \$50 million claim for a token payment of two bolivianos (thirty cents). Shultz quotes Bolivia’s lead negotiator in the case as stating that Bechtel’s CEO “told his lawyers that the case wasn’t worth the damage to the company’s reputation.”²⁸³ The Cochabamba case had a global demonstration effect, empowering collective action across continents and inspiring a succession of anti-privatization mobilizations. It showed that even in the poorest country in South America, multi-class, cross-sectoral coalitions could prevail against a militarized state

²⁸² Shultz, Jim. 2008. “The Cochabamba Water Revolt and Its Aftermath,” pp. 9-42. In Shultz, J. and Draper, Melissa C., eds. 2008. *Dignity and Defiance: Stories from Bolivia’s Challenge to Globalization*. Berkeley and Los Angeles, California: University of California Press.

²⁸³ Shultz 2008, 32.

and the considerable financial prowess of the private consortium. In Bolivia, the protests over water united urban “Cochabambinos” with highlands campesinos, and sparked parallel protests across the country for land reform, better teachers’ salaries, and economic fairness for small-scale coca growers.²⁸⁴ Ultimately, as Shultz states, it “ignited a chain of events that provoked historic political and social change,” leading to the current left-wing administration of Evo Morales. But as I discuss in section 5.4, the Cochabamba case also came to represent—in the eyes of many of the *Coordinadora*’s activists and supporters, winning the battle against corporate profiteers and their government cronies, but losing the war to transform the remunicipalized utility, SEMAPA.

The many campaigns against water privatization which followed in the wake of Cochabamba crossed every continent and were chronicled regularly by leading anti-privatization NGOs such as Nader-backed Public Citizen’s “Water for All” program.²⁸⁵ As of early 2004 Water for All was reporting on efforts to privatize utilities and resistance to these efforts in 31 countries around the world: twelve countries in Latin America and the Caribbean, ten countries in Africa, four countries in Asia and the Pacific, and four countries in Europe and North America, including the United States.²⁸⁶ These campaigns were chronicled by Water for All several times per year between 2002-2005 in the publication “Defend the Global

²⁸⁴ Farthing and Kohl, 8.

²⁸⁵ Public Citizen’s Water for All program described itself as “campaigning to protect universal access to clean and affordable drinking water by keeping it in public hands.” The program lasted until early 2005, at which time its staff left to form a new NGO, Food and Water Watch (FWW). More detail is provided in the section describing TANs.

²⁸⁶ Public Citizen, Critical Mass Energy and Environment Program (CMEP), Water for All. “Reports from Around the World.” : http://www.citizen.org/cmep/Water/cmep_Water/reports/ (April 7, 2004).

Commons.”²⁸⁷ Following are brief descriptions of some of the highest profile campaigns which took place during the first part of this decade:

- In South Africa, the installation of pre-paid meters between 2000 and 2002 in several municipalities was blamed for a rash of cholera outbreaks as the poor resorted to using untreated water sources.²⁸⁸ The Anti-Privatization Forum (APF), which grouped dozens of neighborhood associations, organized against the South African government’s policy of full cost recovery for water utilities that had been recommended by the World Bank. According to a *Le Monde* article in February 2004, the French TNC Suez Lyonnais des Eaux (now Suez Ondeo), which had won the Greater Johannesburg contract, is “paying for the anger of the poor” who cannot pay their water bills and are in revolt. Faced with rebellion, the Government started a free minimum service.²⁸⁹ In July 2006, a group of activists from Phiri, Soweto (the “Phiri Five”) filed suit against the government in the Johannesburg High Court arguing that the use of prepaid water meters was unconstitutional. The Court ruled in their favor in April 2008, but that decision was overturned on appeal in October 2009.²⁹⁰
- Starting in the mid-1990s, Argentina saw a wave of protests against privatization after the government privatized the water utilities in Buenos Aires, Tucuman, Sante Fe and Cordoba. In the small province of Tucuman, consumers organized a payment boycott which by 1998 had pressured the French concessionaire Compagnie Generales des Eaux to seek withdrawal from its contract.²⁹¹ In a 2002-2003 case involving the French TNC Suez, a coalition of consumers’ associations, environmentalists, and citizens’ groups in Santa Fe, Argentina, formed “The Provincial Assembly for the Right to Water” to agitate for the rescission of a 30 year concession signed with the Suez subsidiary, Aguas Provinciales de Santa Fe. The coalition held a non-binding referendum on their proposal to rescind the contract in September/October 2002, using 7000 volunteers at 1000 polling stations in 15 cities of the province. Over 255,000 votes were cast in favor of the proposal.²⁹² In Buenos Aires, where a thirty-year water concession had been granted to a Vivendi-Suez consortium,

²⁸⁷ The publications continued for another four years under the new Food and Water Watch NGO, but with less frequency. FWW has de-emphasized its international focus since 2008, with fewer staff devoted to this area of the water program.

²⁸⁸ Public Citizen, “Pre-Paid Meters Punish the Poor,” *Defend the Global Commons*, Volume 1(2): 7.

²⁸⁹ Quoted in World Bank Press Review. February 25, 2004.

²⁹⁰ Barlow, Naidoo and Karunanathan. May 27, 2010. “Three World Water Wins, Soweto Activists Take Prepaid Water Meters to Court.” *Yes! Magazine online*. :

<http://www.yesmagazine.org/issues/water-solutions/3-world-water-wins> (November 6, 2010)

²⁹¹ Public Citizen. February 2002 “The Social Protest for Water in Tucuman.” *Defend the Global Commons*, 1(1): 9.

²⁹² Public Citizen. January 2003. “Plebiscite in Santa Fe, Argentina Demands Exit of Suez,” *Defend the Global Commons*, 2(1): 1-2.

Aguas Argentinas, in 1993, a coalition of unions and citizens' groups waged a campaign to protest high connection fees and water rates which had risen over 177 percent since the concession began.²⁹³ In the wake of the Argentine financial crisis of 2001-2002, the concession defaulted on over \$700 million worth of loans to IFIs.

- In the Philippines, the Water for the People Network formed to challenge the 1997 privatization of Manila's Metropolitan Waterworks and Sewerage System, at the time, the largest water privatization in the world. The concessionaire for the Western zone of the city, Maynilad, raised rates by 253 percent over the course of five years.²⁹⁴ Civil society groups criticized the non-democratic and non-transparent bidding process; the rate hikes, which were tied to an automatic exchange rate adjustment mechanism; the unmet promises of network expansion to the urban poor; and weak regulatory and oversight practices.²⁹⁵
- In Ghana, the World Bank and IMF had been promoting PSP in the urban water sector since the 1990s through such means as "triggers" in the 2000 Country Assistance Strategy which would double the amount of loans Ghana would be eligible for if it undertook PSP; Bank and IMF poverty reduction loans which included conditions to concession or lease urban water systems to private sector operators; and conditions requiring plans to implement full cost recovery with automatic tariff adjustments.²⁹⁶ Ghana's National Coalition Against the Privatization of Water (NCAP of Water) was formed during the National Forum on Water Privatization in Accra in May 2001. A number of key international NGOs and CSOs assisted NCAP in its campaign, including through constituting an international "fact-finding mission" (IFFM) to investigate the likely impacts of the proposed Bank and IMF water sector reforms. The IFFM was composed of a 14 member international CSO delegation led by British M.P. Jenny Tonge, and issued a 100- page report in August 2002. In 2003-2004 the World Bank backed off of its push for a ten-year lease contract and convinced the Government of Ghana to agree to a five-year management contract, to be financed by a \$103 million IDA grant instead

²⁹³ Canadian Broadcasting Company News., March 31, 2004. "Argentina: A Grand Experiment in Water Privatization that Failed." <http://www.cbc.ca/fifth/deadinthewater/argentina2.html> (November 2004). See also Hall, Lobina, and de la Motte. June 2005. "Public Resistance to Privatisation in Water and Energy." *Development in Practice*, 15(3 and 4): 286-301.

²⁹⁴ Ibon Foundation, Inc.. "Consumers Form Group Against Water Privatization," *IBON Features*, online news report, Vol. X: No. 1, Manila, Philippines. : <http://www.ibon.org/news/if/04/04.htm> (March 22, 2004).

²⁹⁵ Grusky, Sara. March 2003, 4.

²⁹⁶ World Bank and International Monetary Fund. April 1, 2002. "Review of the Poverty Reduction Strategy Paper (PRSP) Approach: Early Experience with Interim PRSPs and Full PRSPs," 43-44. These conditions were cited in a submission by the Ghanaian NGO the Integrated Social Development Center and Southern Links in testimony before the International Select Committee on the World Bank, October 24, 2002. The full cost recovery conditions were included in an IMF three-year loan arrangement for Ghana under the Poverty Reduction and Growth Facility. See: Government of Ghana Letter of Intent, *Ghana—Staff Report for the 2001 Article IV Consultations*. Washington, D.C.: International Monetary Fund, 56-57.

of the originally-contemplated loan.²⁹⁷ The management contract included several clauses requested by NCAP, such as 50,000 new water connections for the poor and a review of tariffs by the Public Utilities Regulatory Commission.²⁹⁸

- In Uruguay, the case study I present in Chapter 6, a broad-based “red-green” coalition of trade unionists, environmentalists, consumer groups, and neighborhood associations launched a successful three-year campaign for a constitutional amendment making PSP in WSS utilities illegal. The campaign garnered international support and had a strong demonstration effect on subsequent anti-privatization campaigns, including a constitutional reform campaign in Colombia.

Other activist campaigns in developing countries which originated during the first half of the decade included those in India, Indonesia, Nicaragua, Peru, Sri Lanka, and Tanzania.²⁹⁹ Opposition to water privatization was by no means confined to developing countries: rejection of proposals to introduce PSP or terminations of existing privatizations have occurred in both transition and developed countries including Canada, France, Germany, Hungary, Poland, the United States and New Zealand.³⁰⁰ In the United States, opposition led to termination of a privatization initiative in Atlanta, voided a privatization contract in Stockton, California, and stalled another initiative in New Orleans.³⁰¹

Characteristics of Campaigns and Campaign Actors

²⁹⁷ World Bank. *Urban Water Project: Ghana*. Project Approval Date: July 27, 2004. <http://web.worldbank.org/external/projects/main?Projectid=P056256&theSitePK=40941&piPK=64290415&pagePK=64283627&menuPK=64282134&Type=Overview> . (December 22, 2010).

²⁹⁸ Timeyin Uwejamomere, WaterAid. 2007, updated in 2009. “Ghana: Civil Society Organisation Involvement in Urban Water Sector Reform.” http://www.wateraid.org/documents/ghana_case_study.pdf (January 19, 2010)

²⁹⁹ Public Citizen, Critical Mass Energy and Environment Program (CMEP), Water for All. “Reports from Around the World.”

³⁰⁰ Hall, Lobina, and de la Motte 2005, 289-292.

³⁰¹ Conca 2005, 239. Pacific Institute for Environment and Development. October 27, 2003. “Stockton Water Privatization Ruling a 'Victory' for Democracy.” http://www.pacinst.org/topics/water_and_sustainability/water_privatization/stockton/ (December 23, 2010).

The majority of campaigns against water privatization appear to have been initiated by local or national organizations. PSIRU claims that [no local or national campaign]

was prompted by international agencies or originated as part of international campaigns. Many opposition campaigns have received little or no international assistance, including some of the most successful ones, such as the water campaigns in Lodz (Poland), Tucuman (Argentina), and Nkonkobe (South Africa)...None of the [international organisations active on these issues] has a centralised structure capable of ‘commanding’ local participation in a global campaign. The campaigns have not even been ‘coordinated’ by international confederations, as has happened with the union campaigns against mining companies; lobbying of multinational company shareholder meetings, for example, has been almost completely absent in the water and energy sectors.³⁰²

However, from my experience studying campaigns and TANs over the last eight years and from interviews with TAN activists, it is equally the case that many national campaigns would have never reached the scope, scale, or impact they had without support from transnational NGOs, CSOs, or networks. In Ghana, for example, the support and advocacy of the international NGOs in the transnational network was vital for publicizing the anti-privatization campaign and leveraging power against the IFIs and the Government of Ghana. The TAN in support of the NCAP of Water brought important resources to the campaign and pressured the IFIs and bilateral donors through actions in CSOs’ respective home countries.³⁰³ In the United Kingdom, Christian Aid, Oxfam-U.K., the World Development Movement, and Southern Links played a strong advocacy role for the NCAP campaign through

³⁰² Hall, Lobina, and de la Motte 2005, 293-298.

³⁰³ Travis, Karen. April 2004. “Transnational Activist Networking Against Privatization of Water and Sanitation Utilities in Developing Countries, with Case Studies of Ghana and Uruguay.” Unpublished paper. University of Maryland, College, Park.

pressure on the Department for International Development (DFID), the U.K.'s bilateral development aid agency, which has been a source of significant donor aid to its former African colony. In the U.S., Public Citizen's Water for All program acted as an advocate/liaison with World Bank project managers and Country Directors, and provided financial support to the leadership of NCAP to attend international conferences.³⁰⁴ To some degree, the TAN helped to create the "boomerang" effect conceptualized by Keck and Sikkink.³⁰⁵ At the same time, there has been no single TAN or northern NGO that has functioned as the hub of international campaigns. Conca writes that a "noteworthy difference between the anti-dam and anti-privatization campaigns is the absence in the latter case of a focal point akin to the role played by the International Rivers Network...Instead, several movement groups and nongovernmental organizations have become important nodes in a broader and more diffuse network."³⁰⁶

Table 2 presents an overview of many of the key CSOs and global and regional networks which have been active in transnational campaigns against water privatization, and/or which have advocated for "water justice" in developing countries during the last decade. The inventory of organizations is not intended to be exhaustive, nor will I undertake an analysis of these organizations and networks here, though I reference many of them throughout this chapter. The table captures the major activist players between 2000-2010, grouping CSOs and networks according to

³⁰⁴ Interview with Sara Grusky, Public Citizen-Water for All campaign, Washington, D.C., February 18, 2004.

³⁰⁵ Keck and Sikkink 1998, 12-13. The "boomerang pattern" refers to a situation where local NGOs' access to their government and avenues of potential redress is blocked (due to no or low level of democratic institutions). TANs and/or foreign NGOs exert leverage over donor/Northern states and/or intergovernmental organizations to gain access to and/or influence over, the closed state.

³⁰⁶ Conca 2005, 244.

their geographic bases and scope, and provides a short description of the organization and activities related to WSS. I also include “networks of networks” such as the World Social Forum gatherings, which have functioned as critical social and political spaces for the development of anti-privatization water networks, and a description of a multistakeholder initiative organized to explore issues around PSP, The Water Dialogues.

The first category in the table, “International Membership-Based CSOs,” includes three of the most prominent advocacy federations which have worked on WSS issues: Consumers International, Friends of the Earth-International, and Public Services International. Each represents different constituencies which at times have worked together in country-specific campaigns. Though Consumers International tends to represent more middle-class constituencies, consumers groups in Latin America, for example, have formed multisectoral coalitions both to oppose PSP and to promote increased access and equity in WSS services. These federations are member-based and significantly member-financed, and local and national affiliates have typically pursued campaign involvement autonomously. Of these three federations, PSI and its research affiliate, PSIRU, have been continuously involved in anti-privatization activities throughout the decade and have had Board representation on networks such as “Reclaiming Public Water” (discussed in Section 5.4) and The Water Dialogues.

The next organization listed in the table is La Red VIDA, a regional network of CSOs in the Americas which has been particularly visible and active in international networks and conferences, and in supporting country-level campaigns.

There is an analogous network in Africa, the Africa Water Network, which was launched at the 2007 WSF in Nairobi, Kenya by activists representing organizations from across Africa. However, it has so far not turned into a cohesive entity able to either support country-level campaigns or wield influence regionally or internationally.

The next category of groups presented in Table 2 is northern NGOs and CSOs headquartered in the U.S, Canada, the U.K., and Europe. In whole or in part, though in different ways, these NGOs have prioritized forging links to national and local CSOs in developing countries. During the first half of the decade, Public Citizen was the U.S. NGO most engaged in transnational networking against PSP through its International Water Working Group and Water for All campaign. Its successor, Food and Water Watch (FWW), has become more focused on U.S. campaigns during the last several years, but has continued to espouse a strong anti-privatization platform in international forums, and has been active in networks fighting for formal recognition of the rights to water and sanitation in the U.N. The Council of Canadians, whose national chairperson, Maude Barlow, is an internationally recognized author and indefatigable spokesperson for the anti-privatization and right to water movements, has been one of the most active organizations in international networks over the last decade. Among European NGOs, the U.K.'s World Development Movement (WDM) waged a successful campaign against the Department for International Development, which agreed to eliminate PSP conditionality in its bilateral aid and technical assistance. The European think-tank NGOs Corporate Europe Observatory and the Transnational

Institute (CEO/TNI) have coordinated the “water justice” campaign and the “Reclaiming Public Water” network, promoting public-public partnerships and advocating for alternative models of participatory control of WSS services. FWW, the Council of Canadians, CEO/TNI, La Red VIDA, and WDM (to 2008) represent and group NGOs and CSOs that have taken a consistently “hard line” against PSP throughout the decade.

WaterAid, in contrast, is both a service delivery and advocacy NGO, and one of the largest international NGOs working on improving access to water, hygiene, and sanitation in 26 of the world’s poorest countries. WaterAid works with, and helps to fund, local partners’ projects, as well as works to influence policy at all levels. The Freshwater Action Network (FAN), a separate entity under WaterAid, aims to create capacity and voice among local CSOs across the WSS sector to advocate and lobby policymakers. WaterAid receives funding from the U.K.’s water industry, including through employee fundraising campaigns, and from the U.K.’s Department of International Development. Nevertheless, its positions on PSP have been skeptical and critical, and it would be unfair to allege, as have some NGOs from the “hard line” anti-privatization networks, that WaterAid’s positions align with its corporate funders. As I note later in this chapter, WaterAid’s more pragmatic position about the role of the local private sector in developing countries no doubt emanates from its work on the ground and with small-scale providers.

The second-to-last entry in Table 2 consists of the World Social Forums (WSFs), which have taken place almost annually over the last decade.³⁰⁷ The WSFs

³⁰⁷ In several recent years, the WSFs have been structured as polycentric gatherings across continents, rather than conferences in a single city.

have been important venues for network-building, information exchange, and for generating momentum and esprit de corps. They have functioned as a “political opportunity structure” for the anti-privatization movement.

The last entry in Table 2 describes a multistakeholder initiative known as The Water Dialogues (TWD), which lasted from 2002-2009 and grew out of the highly-polarized debate over PSP during the first half of the decade. TWD consisted of a series of national-level multistakeholder dialogues and research processes in five countries: Brazil, Indonesia, the Philippines, South Africa and Uganda, with an International Working Group providing an oversight and coordinating function. The national dialogues examined whether and how the private sector could contribute to the delivery of affordable and sustainable WSS services, and varied by country along several dimensions: consensus versus confrontational styles, themes chosen for emphasis, and capacity for undertaking evidence-based primary research.³⁰⁸

Although it is beyond the scope of this chapter to discuss TWD in any detail, I offer a few observations here. I interviewed the International Coordinator of TWD in London, and she emphasized that the dialogues were really focused on the national level and that the lessons learned from the stakeholder processes could be synthesized only up to a point, given the different country experiences.³⁰⁹ In the Philippines, for example, she stated that “the process was contentious and it was difficult to get to a point of dialogue—the private water concessionaires (Manila Water and Maynilad)

³⁰⁸ For example, the dynamics of the Philippines and South African groups were characterized as confrontational, though this did not necessarily preclude moving towards some shared understandings. Almost all of the national groups focused to some extent on the themes of finance and regulation, but some chose additional emphases such as the role of small scale providers (Uganda). See: Bakker, Karen and Martin, Kate Elaine. November 2009. *The Water Dialogues: An International Summary Report*. London, U.K. <http://www.waterdialogues.org/summary.htm> (December 21, 2010)

³⁰⁹ Interview with Kate Elaine Martin, International Coordinator of The Water Dialogues, London, U.K. March 10, 2009.

dropped out of the process.” The South Africa dialogue was also a “confrontational” process, with issues of commercialization at the fore of contentious discussions between activists and water TNCs. With financial help from the government and the World Bank, the Brazil national dialogue was able to conduct longitudinal analysis of 54 PSP contracts across the country, using household surveys and secondary data obtained from private companies and government agencies.³¹⁰ Brazil was therefore able to devote substantially greater resources to looking at the question of PSP’s impact on tariffs and the ability of the WSS sector to attract finance.

Professor Karen Bakker, who authored several analytical papers for TWD, characterized the situation at the end of the process as having changed significantly from the outset:

The role of the private sector in providing water supply services in developing countries has “evolved” significantly...Some participants in the international debate now offer a more nuanced understanding of the broad range of private actors – both formal and informal, profit and not-for-profit – participating in the water supply sector. The issue of the relative merits of the public and private sector as water service providers has been joined (and to some extent supplanted) by other issues, including financing and regulation.³¹¹

However, Bakker and Martin, the co-authors of the final summary report also noted:³¹²

Although The Water Dialogues largely gravitated towards issues and approaches around which consensus or relative agreement could be reached, they have not yet resolved key issues facing the sector. These participants might argue that the question of whether or not to engage in PSP (and commercialisation) is still central, and requires active debate on the most

³¹⁰ Bakker and Martin. November 2009.

³¹¹ Bakker, Karen. April 2009. “Overview Paper: Recent Trends in PSP, Financing, and Regulation in the Water Sector.”

<http://www.waterdialogues.org/downloads/new/TP-Overview-28-April.doc> (August 29, 2009)

³¹² Bakker and Martin Kate. November 2009, 37.

contentious issues at hand, such as whether water is an economic good or a public good.

Nevertheless, all of the national dialogues were able to reach some areas of consensus and clarify the nature of existing conflicts. This was considered the main “lesson learned” at the international level and for future multistakeholder initiatives.

In concluding this discussion I would note that there have been a plethora of other NGOs and CSOs that have provided support to campaigns against water privatization. These include faith-based organizations and NGOs working on a broad range of development issues and/or focused on the IFIs.³¹³ Foundations and intergovernmental organizations, such as numerous U.N. agencies, have supported the work of both anti-privatization CSOs and NGOs working on “water justice” issues. Notable examples include the Heinrich Böll Foundation (Germany and North America), the IBON Foundation in the Philippines, and Fundación Solon in Bolivia.

Campaign Targets: The IFIs, Neoliberal States, and TNCs

Many activists were drawn to the WSS anti-privatization movement as an extension of their opposition to a “neoliberal project of globalization from above.”³¹⁴ In my 2003 interview with Carol Welch, Director of International Programs for Friends of the Earth- U.S., she stated that the “trade and IFIs campaigns were driving the water campaign...the corporates campaign targeting specific multinational corporations was also taking off.”³¹⁵ Vicki Cann of the U.K.-based NGO WDM, told

³¹³ Examples include Action Aid, Christian Aid, the Bretton Woods Project, the Uruguay-based anti-poverty network Social Watch, and Third World Network.

³¹⁴ Quoted in Terhorst 2008, 104.

³¹⁵ Interview with Carol Welch, Friends of the Earth-U.S., Washington, D.C., December 8, 2003.

me that WDM “came into water [in 2004-2005] because of its campaign around the GATS in 2001-2002, and because of conditionalities in the Bank’s Poverty Reduction Strategy Papers.”³¹⁶ Correspondingly, the primary targets of campaigns have been the IFIs, transnational water service companies, and neoliberal states viewed as complicit in agreeing to donor conditionalities, and/or viewed as rent-seeking or ineffectual in PSP contract negotiations with TNCs. Activist literature from the early 2000s is replete with accusations of a collusive relationship between the World Bank and the TNC “water lords,” as well as condemnation of the illegitimacy of aid conditions requiring PSP. I quote below from several sources to give a flavor of the rhetoric and substance. Maude Barlow, National Chairperson of the Council of Canadians and the high priestess of the anti-privatization movement, summarized in *The Nation* in September 2002 the argument she and co-author Tony Clarke made in their best-selling “bible” against the privatization of water, *Blue Gold*:³¹⁷

A handful of transnational corporations, backed by the World Bank and the International Monetary Fund, are aggressively taking over the management of public water services in countries around the world, dramatically raising the price of water to local residents and profiting especially from the Third World’s desperate search for solutions to its water crisis...There are ten major corporate players now delivering freshwater services for profit...They are aided by the World Bank and IMF, which are increasingly forcing Third World countries to abandon their public water delivery systems and contract with the water giants in order to be eligible for debt relief.

³¹⁶ Interview with Vicki Cann, World Development Movement, London, United Kingdom, March 10, 2009.

³¹⁷ Barlow, Maude and Tony Clark. September 2, 2002. “Who Owns Water?” *The Nation*. <http://www.thenation.com/docprint.mhtml?i=20020902&s=barlow> (February 25, 2003). Barlow has been called the “Ralph Nader of Canada.” She is the co-author, with Tony Clarke of Canada’s Polaris Institute, of *Blue Gold: The Battle Against Corporate Theft of the World’s Water*, published in 17 countries and 47 languages around the world. She chairs the board of Washington-based Food and Water Watch, is an executive member of the San Francisco-based International Forum on Globalization, and is the recipient of the 2005 Right Livelihood Award (known as the “Alternative Nobel”). In 2008-2009, she served as Senior Advisor on Water to the 63rd President of the United Nations General Assembly. http://www.canadians.org/about/Maude_Barlow/index.html (December 24, 2010).

Public Citizen's Water for All campaign literature emphasized the relationship between the Bank's larger structural adjustment policies and PSP in water. For example:³¹⁸

The World Bank shuns the growing criticism from thousands of civil society organizations around the world. These organizations claim that the institution's policies of privatization, de-regulation, trade liberalization and fiscal austerity are having drastic impacts on employment, small farmer's livelihoods, the environment, funding for schools, health care, water, sanitation, labor rights and much more. While the grievances of civil society organizations are studiously ignored, World Bank "partnerships" with major corporations remain more than cozy...The World Bank and the IMF provide new business opportunities for the global water companies by requiring cash-strapped and indebted governments around the world to privatize their water systems as a condition for loans and debt relief.

The multi-country based advocacy NGO Action Aid International published a report in 2004 entitled "Money Talks: How Aid Conditions Continue to Drive Utility Privatisations in Poor Countries," arguing that:

The conditions that donors attach to their aid programmes go far beyond any legitimate measures to ensure that aid money is used efficiently for its stated purposes. Indeed, they go to the heart of the public policy-making process in the countries concerned. Utility privatisation is a prime example of this trend, and is particularly worrying given its relevance to poverty reduction. In a large number of low-income countries, donors are pressuring governments to sell off and sub-contract services in water and electricity to private companies. They do so despite the lack of evidence that this increases access for poor people, accountability to consumers or cost-effectiveness...There should be an end to the tying of IFI loans and bilateral aid to the privatisation of utilities and other economic policies...a fully independent review of the use of economic policy conditionality by IFIs and bilateral donors is overdue.³¹⁹

As I discuss in Section 5.3 below, and as the quote above illustrates, activists—especially those who identified with the "water justice" movement, commonly

³¹⁸ Public Citizen Critical Mass Energy and Environment Program. September 2002, 1-5.

³¹⁹ Action Aid International. April 2004. "Money Talks: How Aid Conditions Continue to Drive Utility Privatisations in Poor Countries." http://www.actionaid.org.uk/content/documents/money_talks.pdf (November 2006).

deployed frames castigating the neoliberal economic model in arguing against WSS privatization.

In 2002, the International Consortium of Investigative Journalists (ICIJ), a project of the Center for Public Integrity, conducted a year-long investigation on the effects of “The Water Barons,” the largest WSS TNCs, on various communities around the world.³²⁰ The ICIJ introduced its series of reports by noting that:

The explosive growth of three private water utility companies in the last 10 years raises fears that mankind may be losing control of its most vital resource to a handful of monopolistic corporations. In Europe and North America, analysts predict that within the next 15 years these companies will control 65 percent to 75 percent of what are now public waterworks. The companies have worked closely with the World Bank and other international financial institutions to gain a foothold on every continent. They aggressively lobby for legislation and trade laws to force cities to privatize their water and set the agenda for debate on solutions to the world's increasing water scarcity.

In hindsight, the ICIJ was highly mistaken in quoting analysts' predictions that private companies would come to control a majority of publicly-owned utilities in the ensuing decade and a half. Even as the ICIJ was investigating, TNCs' investments in the WSS sector were trending downward in developing countries and the companies' interest was clearly on the wane. Alarms about TNCs raised by other activist NGOs such as the Council of Canadians and Public Citizen, proved equally inflated, and account to a large extent for the reorientation of the movement in the middle of the decade. That reorientation moved campaigns away from heavily targeting TNCs towards seeking formal recognition of water as a human right in the United Nations, and towards the articulation of public-sector and community-based alternatives, as I discuss in Section 5.4.

³²⁰ The Center for Public Integrity. February 3, 2003. “The Water Barons.” Online. : <http://projects.publicintegrity.org/water/> (February 25, 2003; December 26, 2010)

5.3. Framing Collective Action against Water Privatization

Campaigns against water privatization have attracted a broad spectrum of civil society organizations, including anti-poverty and development CSOs, environmental groups, trade unions, anti- and alter-globalization activists, faith-based organizations, and public health groups. Social activist entrepreneurs in TANs have used multiple frames for engendering collective action—frames which draw on existing and emergent international norms. KRS define *framing* as “the strategic efforts by groups of people to fashion shared understandings of the world and of themselves that legitimate and motivate collective action... Frames define the issues at stake and the strategies for action.”³²¹ Tarrow notes that frames are not ideas, but ways of packaging and presenting them. Framing is critical to social movement formation. The ability to fashion common frames among heterogeneous groups is facilitated by invoking existing international norms, seeking to enforce them, and engaging in construction of new norms.³²² By framing their arguments in multiple ways which invoke both rights-based norms and ideas which challenge the dominant neoliberal model, water privatization activists extended the issue’s reach and facilitated broad-based coalition building.

Water as a Cross-Cutting Issue

³²¹ Khagram, Riker, and Sikkink 2002, 12.

³²² KRS distinguish between *international norms*, which they define as shared expectations held by a critical mass of states and intergovernmental organizations in the international arena, and *transnational norms* or *collective beliefs*, which are shared beliefs held by TANs, transnational coalitions, and social movements. Groups must work to develop these shared, collective beliefs.

Part of the success of TANs in mobilizing against water privatization can be attributed to the nature of the issue area itself. Water has inherent characteristics that have made it an ideal organizing issue. It is a necessity for life and health, and is considered a public or merit good; these characteristics resonate across classes, sectors, and cultures. Keck and Sikkink note that among the issue characteristics most conducive to TANs are “issues involving bodily harm to vulnerable individuals, especially where there is a clear causal chain (or story) assigning responsibility, and issues involving legal equality of opportunity.”³²³ As they have been framed by activists, the issues raised by water utility privatizations satisfy both of these conditions.

Frames Invoking International Norms

1. Access to Potable Water and Basic Sanitation is a Fundamental Human Right.

All of the TANs working against water privatization have invoked the international norm of access to water and sanitation as a basic human right. After a decade of invoking this norm in campaigns, TANs and NGOs scored a major victory in July 2010 when the U.N. General Assembly declared access to clean water and sanitation a human right.³²⁴ Prior to this victory, TANs drew on norms and principles embodied in the U.N. Declaration on Human Rights, the U.N. Covenant on Economic, Social, and Cultural Rights, and reports of the U.N. Development Program and UNESCO. TANs have linked basic human rights to

³²³ Keck and Sikkink 1998, 27.

³²⁴ U.N. News Centre, July 28, 2010. “General Assembly Declares Access to Clean Water and Sanitation is a Human Right.” The Council of Canadians and Food and Water Watch are NGOs which have been particularly mobilized around formalizing the right to WSS in U.N. legal instruments.

- the norm of poverty reduction and the achievement of the MDGs, subscribed to by all the world's governments and the leading development institutions.
2. *Water is a Public Good and an Essential Service.* Even though water supply and sanitation are not pure public goods, they have widely-recognized public and merit goods characteristics. U.N. agencies and documents frequently refer to WSS services as public goods. The positive externalities associated with universal and affordable access to WSS are readily appreciated, making this a frame which has had cross-cutting appeal, like the human rights frame. TANs have counterpoised the concepts of “rights” and “essential” to that of water as a commodity: water is essential to satisfying basic needs and if left to the market will be underprovided and lead to human deprivation. This has been a frame conducive to mobilization in that it pits the norms of equity and basic needs against profiteering.
 3. *Stakeholder Participation And Government Accountability Make For Good Development Policy.* Multilateral development agencies and intergovernmental organizations have promoted the norm of stakeholder participation in poverty reduction strategies. In essence, this is a norm of *democratic* participation: the norm is a composite of principles of transparency (in decision-making and governance); accountability (of states to citizens); and voice (to the poor in policy formation). Activists in water TANs have exploited what they see as a contradiction between rhetoric and practice with respect to this norm in the IFIs. They have pointed to World Bank and IMF conditionalities in loan agreements which required governments to move towards full-cost recovery in water utilities,

including measures to assure investors' profitability through automatic tariff or exchange-rate adjustment mechanisms. Activists have claimed that these conditions are almost always applied in secret negotiations between states and the IFIs; that bids and contracts for PSP are non-transparent; and that mandated participation under the PRSP process has been little more than a cosmetic exercise.

4. *Environmental Justice*. This might be characterized as more of an emergent international norm, or a "transnational norm." This frame is a composite of social and environmental sustainability, linking human rights and equity to protection of the environment. It has been invoked most often by Latin American TANs under the terminological rubric of "*socio-ambiental*," reflecting a "social ecology" orientation. Frames identify the poor as those who bear the heaviest burden of environmental degradation and pollution, including contaminated water supplies and lack of sewerage. Activists have linked weak regulation in the WSS sector to weak environmental regulation generally, and linked privatization in WSS to corporate and state malfeasance against the natural environment. Campaigns against bottled water incorporate this composite frame, arguing that the global bottled water industry depletes water reserves and aquifers in poor communities (e.g, the campaign against Coca-Cola in Kerala, India).

Frames Critical of Neoliberalism

In addition to the international norms and rights-based frames discussed above, many of the activists in the anti-privatization and water justice campaigns

adapted or created frames that drew on critiques of neoliberalism and previous or coextensive struggles against SAPs. These frames develop and elaborate what KRS call “transnational norms,” or collective beliefs. As I noted at the beginning of this chapter, many activists who became involved in anti- privatization networks around WSS formerly worked on, or continued to work concurrently on, a range of issue areas targeting the IFIs and SAPs. Two particular frames which have been deployed exploited the perceived threat to democratic and local control from corporations and unaccountable, unelected, global institutions.

Privatization Of WSS Threatens States’ Sovereignty. This frame is related to the frames discussed above (water as an essential service under the stewardship of the state), but it contains a separate component that recasts the privatization debate in terms of neoliberal policy prescriptions. TANs have used this frame to argue that water and sanitation are so strategically important in social and political terms that they cannot be allowed outside of the ambit of the state. Further, it is chimerical of the IFIs to argue that weak states have the institutions and capacity necessary to adequately regulate and oversee the private sector. This frame, along with the norm of water as a public good and essential service, has also been used by public sector unions (especially in Latin America) to argue for their relevance and unique role in the WSS sector.

Global Trade And Investment Rules Undermine States’ Sovereignty. This frame runs parallel to the frame above, positing that the extension of trade and investment rules to the services sector threatens states’ sovereignty. Framing by reference to trade liberalization enabled WSS activists to gain leverage by linking

conceptually and on the ground to activists with campaigns around free trade agreements in the first part of the decade (e.g., Oxfam International, Public Citizen, and other NGOs and coalitions which opposed the FTAA and the Central American Free Trade Agreement). This frame also subsumes opposition to bilateral investment treaties, an increased focus of water justice activists during the second part of the decade.³²⁵ Activists have used this frame to publicize the risk of arbitral tribunals awarding onerous sums to TNCs which have filed claims under ICSID alleging impairment or expropriation of their investments under their host-home country BIT. In July 2006 an ICSID tribunal awarded a U.S. company, Azurix, which had a WSS concession in Buenos Aires, \$165 million in damages against Argentina, finding that Argentina violated certain provisions of the U.S.-Argentina BIT.³²⁶ In July 2010, an ICSID tribunal ruled in favor of a consortium including Suez, Aguas de Barcelona, and Vivendi against Argentina in a case involving another Buenos Aires WSS concession, deferring for the time, the determination of the award amount.³²⁷

The use of multiple frames which referenced international norms and collective beliefs increased the ability of anti-water privatization TANs to exploit contradictions in the publicly-expressed goals of opposition targets such as the IFIs.

³²⁵ Numerous activist NGOs and CSOs in the water justice movement, including from Bolivia and Uruguay, submitted testimony for the public hearing on July 29, 2010 as part of the U.S. Government's review of the 2004 Model BIT.

³²⁶ The tribunal found that Argentina failed to accord "fair and equitable treatment" and "full protection and security" to Azurix's investment, and that it took arbitrary measures that impaired Azurix's use and enjoyment of its investment. See: *Azurix Corp. v. Argentine Republic* (ICSID Case No. Arb/01/12), Annulment Proceeding, Decision of the Ad Hoc Committee, Sept. 1, 2009. : <http://www.lexology.com/library/detail.aspx?g=8f820ce2-1547-463b-8177-8c6ba1be49bc> (December 27, 2010).

³²⁷ International Centre for Settlement of Investment Disputes. July 30, 2010. "In the proceedings between Suez, Sociedad General de Aguas de Barcelona S.A., and Vivendi Universal S.A.(Claimants) and The Argentine Republic (Respondent) ICSID Case No. ARB/03/19. <http://ita.law.uvic.ca/documents/SuezVivendiAWGDecisiononLiability.pdf> (December 28, 2010)

Casting PSP in water as an element in a larger neoliberal agenda of trade and investment liberalization helped activists forge multi-issue coalitions and broaden the base of campaign supporters.

5.4. A Shift in the Movement's Orientation, 2005-2010

A Turning Point Around the Fourth World Water Forum

In an interview I conducted with Sara Grusky of FWW in November 2005, she described the international “movement’s” activities heading into the 4th WWF as focused in several directions. La Red VIDA, the Latin American water network, would attempt to combine the success of the referendum/plebiscite model from the Uruguayan victory with a continued campaign against the TNC Suez. Bolivian, Brazilian, and Uruguayan activists wanted to build a global campaign calling for water to be taken out of the WTO and bilateral investment treaties by promoting constitutional initiatives or national laws which restrict water in international trade agreements. An increased focus would be on improving systems of public water. As I discussed in Chapter 3, the 4th WWF represented a turning point for the IFIs’ PSP agenda: there was explicit, if reluctant, acknowledgement that the tide had turned away from private sector interest in WSS utilities in developing countries. The IFIs were not giving up the ghost on PSP, but the mood and outlook were certainly more somber than they had been in the previous 15 years. In parallel, the TANs and campaigns around water privatization recognized that they had reached a new juncture, with weakened opposition in the IFIs and TNCs. To quote CEO/TNI’s Water Justice Project:

The Fourth World Water Forum in Mexico City (March 16-22) showed that the international debate about water and sanitation is at a crossroads. After the unashamed promotion of privatisation at the previous editions of the WWFs (the Hague in 2000 and Kyoto in 2003), the Mexico City conference indicated a growing recognition of the widespread failures of private sector water management and the need to prioritise improved public water supply...the failure of privatisation in numerous cities over the last years and the gradual departure of Suez and other water multinationals from developing countries forced the World Water Council to adopt a very careful discourse during the 4th WWF.³²⁸

I attended the 4th WWF and the main alternative forum organized by a broad-based international network of activists, the International Forum in the Defense of Water (IFDW).³²⁹ The influence of the anti-privatization movement could be seen inside the official WWF in the smorgasbord of panels which addressed the human right to water, the debates over PSP, and revitalizing public utilities. TANs and CSOs were split over participation in the 4th WWF, with the Mexican host coalition, COMDA, refusing to enter. Ten governments reportedly advocated for inclusion of the “right to water” in the WWF’s final Ministerial Declaration, but were thwarted in this goal by opposition from Mexico, the United Kingdom, France, The Netherlands and the United States, among other countries. (Bolivia, Cuba, Venezuela and Uruguay tabled a “complementary Declaration” which included strong reference to the right to water.) Despite this setback, international media reporting reflected and reinforced the goals and struggles of the “water justice movement.” The Associated Press (AP) and the New York Times led off their articles covering the 4th WWF by

³²⁸ Hoedeman, Olivier and Nami Yamamoto. May 2006. “The Tide Turns, but Pro-Privatisation Currents Remain Strong.” CEO/TNI Water Justice Project.
http://www.waterjustice.org/?mi=16&res_id=134 (October 2006)

³²⁹ The IFDW was hosted by the Mexican coalition COMDA (Coalicón de Organizaciones Mexicanas por el Derecho al Agua) in Mexico City between March 17 and 19, 2006.

describing the failure of private companies to bring water to the poor. The AP's opening paragraph began: "Governments, not private companies, should take the lead in improving public access to safe drinking water, representatives of 148 countries said Wednesday at the end of a forum on improving global water supplies."³³⁰

The IFDW's organizing slogan was: "Water is a right, not a commodity—no to privatization." Anti-privatization TANs and a broad spectrum of Mexican CSOs took up this theme in a show of strength during the opening day of the 4th WWF as 20-30,000 people took to the streets in Mexico City, protesting not only privatization, but dams, Coca-Cola and its bottled water empire, and other local issues in Mexico related to water scarcity and environmental degradation. The IFDW reported that close to 1000 participants from 50 countries attended its three-day forum, which covered four main themes and drew 45 speakers. The themes comprised the human right to water; privatization, public management, and social control; the environment, sustainability and ecology; and democratic management, equality, justice and social participation. The two themes addressing public and democratic management and social participation reflected a new emphasis on articulating alternatives, discussed in the next section. The Declaration which was adopted at the close of the IFDW encapsulated this under the banner "The Right to Water is Possible: Participatory Public Management." The European NGOs Corporate Europe Observatory and Transnational Institute commented: "The IFDW showed that the water justice

³³⁰ Stevenson, Mark. March 22, 2006. "Forum Says Governments Must Improve Water." Associated Press.

movements are moving far beyond opposition to privatization.”³³¹ However, I argue in the next section that the “far beyond” is less concrete than it is aspirational.

From Anti- to Pro-: Articulating Alternative Models

Marcela Olivera, water activist and sister of Oscar Olivera, one of the internationally-known leaders of *La Coordinadora* in Cochabamba, took the podium at Washington, D.C.’s first “Water Justice Film Festival” after the premiere of the movie *Thirst* on April 27, 2004.³³² *Thirst* was produced by San Francisco activist film-makers Alan Snitow and Deborah Kaufman, and documented resistance to water privatization in Bolivia, India, Stockton (California), and at the third World Water Forum (2003) in Kyoto, Japan. Olivera’s message to the audience, who had just witnessed images of bravery and resistance in Cochabamba on the screen was this: do not romanticize the victory in Cochabamba, because there is no victory until we solve the real problem of getting water to the people. “We’ve won the battle but not the war. The real challenge confronting us is only now beginning.”

Writing about resistance to privatization in 2005, PSIRU researchers acknowledged that opposition campaigns have often not articulated specific alternative policies: “the information costs of doing so are very high, and most campaigns do not aspire to detailed restructuring and management of utilities.”³³³ Terhorst noted that while “organic intellectuals” in the anti-privatization movement initially “avoided detailed articulation of alternatives in favour of normative

³³¹ Hoedeman Yamamoto May 2006.

³³² *Thirst* had its broadcast premiere on PBS’ “P.O.V.” documentary series on July 13, 2004. I attended the premiere at the Water Justice Film Festival, which was co-sponsored by Public Citizen, the Earth Day Network, and The George Washington University.

³³³ Hall, Lobina, and de la Motte. June 2005, 295.

statements on the right to water and the democratisation of the governance of water,” a qualitative shift occurred in the debates during the 2004 and 2005 World Social Forums. He quotes one activist as saying: “we are winning the privatization debate, but what now?”³³⁴ At the 2004 WSF in Mumbai a working group was established to explore collaboration on alternatives to privatization, subsequently coordinated by the Amsterdam-based NGOs, CEO/TNI. “After twelve months of difficult though reasonably effective transnational collaboration,” writes Terhorst, a new loose network of social movement organizations, trade unionists, academics and some utility managers published a volume entitled “Reclaiming Public Water” in January 2005. The volume is divided into three sections with 22 case studies.³³⁵ In November 2005, the “Reclaiming Public Water” (RPW) network was officially launched in Madrid and made its public debut at a symposium it sponsored at a pre-event of the IFDW on the day prior to the opening of the 4th WWF. I attended this “Public Water for All” symposium, which drew an audience I estimate at between 100-150 people. Many of the panelists were affiliated with the RPW network and contributors to the volume.³³⁶ The symposium unveiled the concept of public-public

³³⁴ Terhorst 2008, 105.

³³⁵ Transnational Institute (TNI) and Corporate Europe Observatory (CEO). January 2005. *Reclaiming Public Water: Achievements, Struggles, and Visions from Around the World*. Amsterdam, The Netherlands: TNI and CEO. The first section includes examples of successful public utilities in the North, as well as examples from the South such as the uniformly-cited model of participatory governance in Porto Alegre, Brazil and a successful municipal water cooperative in Santa Cruz, Bolivia. The second section includes cases described as “works in progress,” such as efforts to restructure previously weak public sector utilities (Recife, Brazil; Caracas, Venezuela) and introduce participatory decisionmaking into re-municipalized utilities (Cochabamba). The third section covers “campaigns in progress and at different stages of formulating new policies,” and includes cases deemed successful in fighting privatization (Uruguay) as well as ongoing struggles (Indonesia, Philippines, South Africa).

³³⁶ Symposium organizers included TNI/CEO, COMDA (Coalicion de Organizaciones Mexicanas por el Derecho al Agua, the Mexican host coalition for the alternative IFDW), Friends of the Earth-International, the Council of Canadians, the World Development Movement, and Bread for the World, among others.

partnerships (PUPs) “which seek to pair well-performing public utilities with those that are performing less well to share expertise on a not-for-profit basis in order to improve the standard of the lesser performing utility.”³³⁷

The cases presented in the RPW volume and at the symposium presentations in Mexico City focused preponderantly on social and political processes rather than the operational or technical “nuts and bolts” of public water provision. Cochabamba serves as an object lesson in this regard. Writing about that city’s water situation and public utility (SEMAPA) in 2009, the Democracy Center’s Jim Shultz continued to echo the challenge that Marcela Olivera threw out to fellow activists five years earlier:³³⁸

Water activists in Cochabamba focus on how to build “social control” of SEMAPA...Social control of a public company is clearly important, but looking at process issues without looking at operational issues—such as the leak problem and SEMAPA’s finances—has left the operational issues a mess...when the company has tried to undertake practical solutions, water activists have sometimes made it more difficult. For example, when SEMAPA was pushed by the IDB to increase rates (unchanged in six years) just to account for inflation, activists attached the proposal bitterly. But if costs are increasing and rates aren’t keeping pace, how is the company supposed to keep up with the demand for expansion? Wading into the details of running a water company isn’t romantic, but it is essential.

Terhorst, in contrast, continued to blame the IFIs for the impaired viability of alternative models of socially-controlled WSS delivery:³³⁹

³³⁷ Public Services International. March 17, 2006. “PSI at the World Water Forum: Public-Public Partnerships are Slowly Attracting High Level Attention.” : <http://www.world-psi.org/TemplateEn.cfm?Section=Utilities&CONTENTID=11508&TEMPLATE=/ContentManagement/ContentDisplay.cfm> (April 10, 2006).

³³⁸ Shultz 2008. Shultz notes that SEMAPA has been losing 55 percent of the water in its pipes to leaks and illegal hookups, and that it suffers from mismanagement and the lack of a solid financial plan despite a steady infusion of funds from the Japanese government and the Interamerican Development Bank.

³³⁹ Terhorst 2008, 111.

Cochabamba, however, is an example of how the lack of political support by development agencies and the local political elite can endanger social reform processes. The Inter-American Development Bank (IADB) has offered SEMAPA a loan, but with conditions that hamper the transformation of the utility and, in fact, endanger popular support by delaying visible improvements in water delivery.

However, as Karen Bakker points out, the inability to so far realize the community ownership and social control model for Cochabamba proposed by *La Coordinadora* is rooted in much greater complexity. She points to the disjuncture between a vision of social control that originated in small rural irrigation cooperatives and community-run water supply systems in peri-urban Cochabamba and other parts of Bolivia, and the very different structure of parallel public networks that have supplied water to well-off residents of the city. Advocates for community-control models may be unwittingly strengthening class-based fragmentation and segmentation of water supply delivery systems. Bakker notes that the concept of community is frequently ambiguous, and while community/consumer participation can improve accountability and transparency, it rarely addresses issues of financing, access, and operational management.³⁴⁰ In the case of Cochabamba, moreover, a former organizer with FWW and the Latin American water justice network, *La Red VIDA*, told me that members of ASICA-SUR, an association of cooperatives in Bolivia, did not want to advertise the fact that they were receiving financing from the IDB and Japan's development agency.³⁴¹ This parallels a situation I describe in my case study of Uruguay in Chapter 6. There, the anti-privatization coalition CNDAV has remained mum over continued and increased MDB financing for its public utility after it won

³⁴⁰ Bakker 2008, 236-252. Bakker is an Associate Professor in the Department of Geography, and Director of the Program on Water Governance at the University of British Columbia, Canada.

³⁴¹ Interview with Jeff Conant, San Francisco, California. July 7, 2009.

its successful constitutional reform campaign to prohibit any form of PSP in WSS delivery.

The RPW is by its own description a diverse and loose-knit network without formal membership. Opinions within the network vary on issues ranging from the importance of recognizing the “right to water,” to whether or not the public sector is inherently good or desirable, to the meaning or usefulness of the concept of the “commons.”³⁴² Sophisticated activists in the movement have recognized that winning the battles and the war requires not just the articulation of a vision of democratically-governed utilities, but engaging with the technical details of running a water utility. Vicki Cann, lead water campaigner for the World Development Movement’s water campaign, told me that while the WDM campaign could claim numerous successes:

We were self-critical of the campaign we launched because we weren’t specific enough early on about viable alternatives to privatization, such as in Tamil Nadu (India), Brazil, and Phnom Penh (Cambodia, a corporatized public utility)...In 2005 we had a big row with DFID and Hilary Benn (then Secretary of State for International Development) who told us that he was sick of criticisms and wanted to see proactive suggestions... We worked closely with Water Aid on [publicizing these alternatives].³⁴³

Although impossible to measure, it is fair to say that the RPW network and the shift in some TANs’ orientation to a focus on public and alternative models has had an effect on renewed emphasis on public sector WSS provision in the international arena. One of the outgrowths of the 4th WWF was the initiation of the

³⁴² Conant, Jeff. March 2010. “Water Justice, Like Water, Travels in Networks: Notes On Reclaiming Public Water.” http://www.waterjustice.org/?mi=1&res_id=277 (November 21, 2010)

³⁴³ Interview with Vicki Cann, World Development Movement, London, United Kingdom, March 10, 2009.

“Global Water Operators’ Partnership Alliance” (GWOPA) by the U.N. Secretary General’s Advisory Board on Water and Sanitation. GWOPA was established to promote “water operators’ partnerships” (WOPs) to help countries reach the water and sanitation targets of the MDGs. The objective of GWOPA’s capacity building activities is to develop the skills of water operators by helping them share knowledge through “twinning,” analogous to the concept behind PUPs.³⁴⁴ GWOPA has also established a financing and advisory facility to implement performance improvement plans to facilitate large scale sector investments. The Reclaiming Public Water Network has a seat on the International Steering Committee of GWOPA, as do several trade union leaders, public utility managing directors, public utility associations, and a Ghanaian water activist and member of the African Water Network.³⁴⁵ Nevertheless, the RPW network has criticized the GWOPA for allowing the regional MDBs and private sector members to steer the organization towards private WOPs or corporatized, commercially-oriented public water companies.³⁴⁶

Just before the 5th WWF in Istanbul, Turkey in March 2009, PSIRU and researchers affiliated with RPW published a report on PUPs in water, with short descriptions of close to 20 examples and an annex listing 137 PUPs in 70 countries.³⁴⁷ The report is an important activist contribution to the debate about revitalizing weak public utilities, but beyond very cursory descriptions, it does not analyze what effect these PUPs have had on “turning around” weak public utilities or

³⁴⁴ U.N.Habitat, GWOPA. “What We Do.” <http://www.gwopa.org/about-us/gwopa/what-gwopa-does.html> (December 29, 2010).

³⁴⁵ U.N. Habitat, GWOPA. “List of Steering Committee Members.” <http://www.gwopa.org/about-us/gwopa/steering-committee-members.html> (December 29, 2010)

³⁴⁶ Conant. March 2010.

³⁴⁷ Hall, Lobina, et al.. March 2009. “Public-Public Partnerships (PUPs) in Water.” : http://www.psiru.org/reports/2009-03-W-PUPS.doc#_Toc223775017 (November 21, 2010)

the sustainability of the partnerships. A senior water analyst at the World Bank who I interviewed and who served as the WSS civil society liaison for a number of years, praised PSIRU's research in general, but was skeptical that weak public utilities in the South could derive much benefit from PUPs. This Bank analyst did not believe that these voluntaristic arrangements would provide the kind of serious technical assistance that these utilities needed, and argued that performance-based or not-for-profit technical assistance contracts would serve these utilities better.³⁴⁸ Whether or not PUPs can be scaled-up is an issue that needs to be addressed.

In a recent development, the RPW network applauded (and WDM claims, directly influenced) the European Commission's decision to earmark 40 million Euros to support not-for-profit partnerships to develop capacity in the water and sanitation sector in African, Caribbean and Pacific countries.³⁴⁹ PSIRU has created a website for the EC to help find partners, form partnerships and provide advice and information. RPW cautions, though, that "members must remain vigilant and intercede in the financing agenda" to ensure that partnership funding doesn't go "to management contracts and other forms of semi-privatization."³⁵⁰

The preceding discussion illustrates both the influence and limitations of the RPW network and water justice TANs to date. While the diversity of the network's members helps to account for the difficulty in achieving common positions, the equivocal and critical stances taken on positive developments could lead to the perception that too often "the perfect is the enemy of the good." The preoccupation

³⁴⁸ Interview 2.

³⁴⁹ PSIRU, University of Greenwich. "ACP-EU Water Partnerships." : <http://www.acp-eu-waterpartnerships.org/> (December 30, 2010).

³⁵⁰ Conant. March 2010.

with ideal-types of community participation seems to far exceed the expenditure of organizational resources devoted to the technical and operational challenges of improving service delivery to the poor. The stated opposition to any form of private sector involvement also betrays inconsistencies in the movement's rhetoric and practice: several of the oft-cited examples of either well-run public utilities (e.g., Phnom Penh) or utilities with participatory management (Porto Alegre, Brazil) incorporate either commercial principles into management or use private sector outsourcing for specific activities. In other words, they do not fit a purist ideal-type.

However, the RPW and anti-privatization TANs do not comprise the totality of the movement, and other NGOs and networks such as WaterAid and FAN have taken a more nuanced and pragmatic view of, for example, small-scale private providers (particularly in rural areas, where both organizations are active) and corporatized public utilities. As I discuss in the next and final section, splits in the "water movement" emerged with respect to these kinds of issues, including cost recovery, and were particularly evident in efforts to engage the World Bank directly on the PSP agenda.

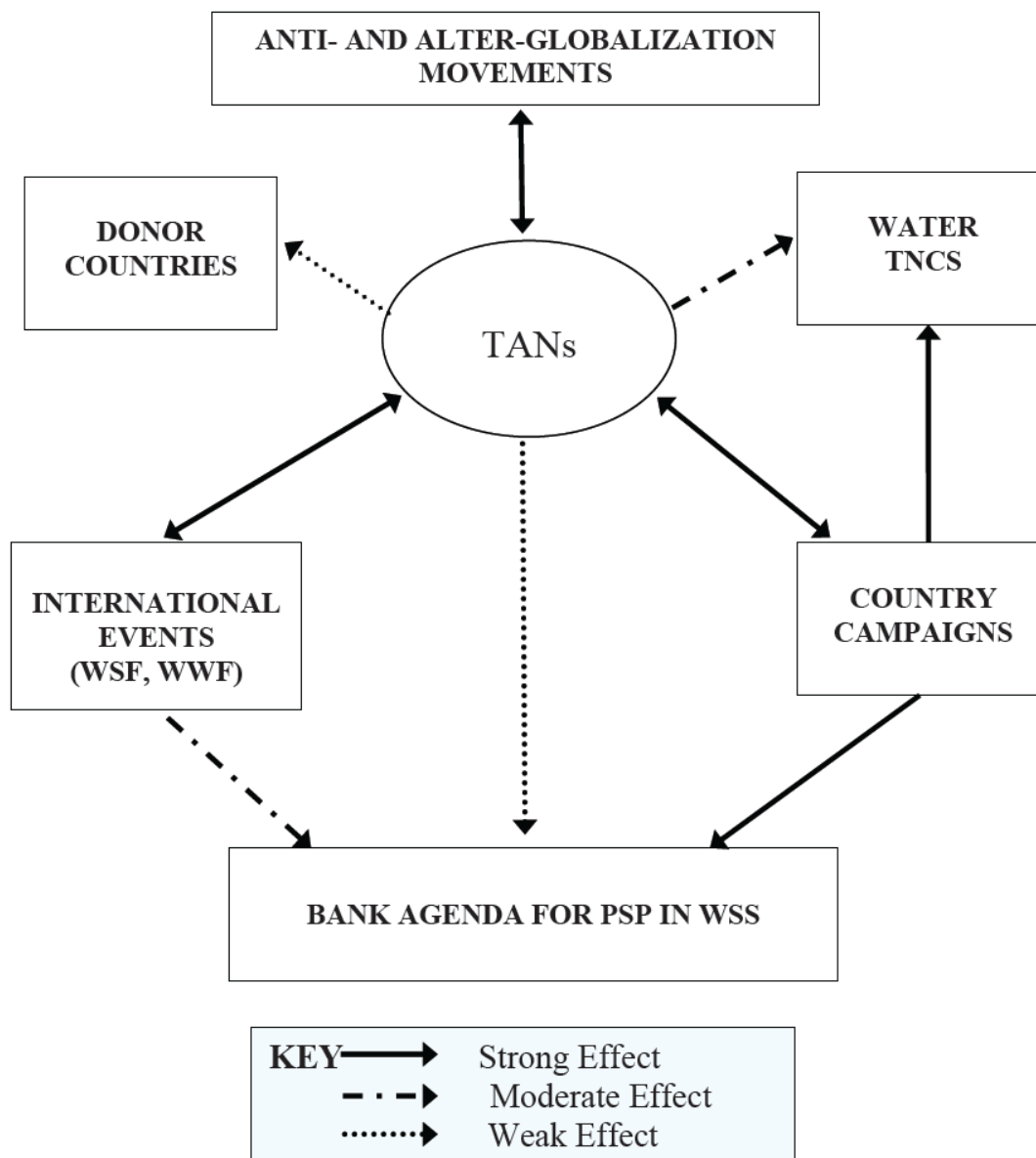
5.5. The Influence of the Water Justice Movement on the Bank's PSP Agenda

Figure 4 illustrates the influence of TANs and CSOs on the Bank's agenda for PSP in urban WSS. As I have discussed throughout this chapter, there have been mutually-reinforcing interactions between water justice/anti-privatization TANs and the broader alter-globalization movement, as well as between TANs and domestic CSO coalitions which have been the main drivers of country-level campaigns. Figure

4 illustrates the strong reciprocity in these relationships and interactions, including through political space created at international venues such as the World Social Forums and World Water Forums.

As I argued in parallel in Chapter 4, the activist-driven vectors of change originated first and foremost in country-level campaigns. As the WDM's water campaign coordinator Vicky Cann told me, "none of the shifts that have happened [at DFID and the IFIs] would have happened without movements on the ground." The importance of the country level to the Bank is also evident in the many pronouncements the Bank has made, often in hindsight, about how a good public relations campaign might have altered the failed course of PSP in various countries. At Water Week 2009 Philippe Marin stated: "The Manila concessions generated a lot of negative publicity. A vigorous campaign on the benefits of concessions might have helped." Similarly, at a workshop on communications strategies to promote PSP held by the Bank in May 2002, one invited speaker, journalist Rupert Wright, used the Ghanaian case as an example of a country that needed a public relations strategy to counter public opposition. In Tanzania, a consultant to DFID, Adam Smith International, received £273,000 of U.K. aid money to run a public relations campaign promoting the country's privatization program, which included the privatisation of water in the capital, Dar es Salaam.

FIGURE 4
The Influence of Water TANs on the
World Bank's Agenda for PSP



The campaign used a national comedian in a series of television advertisements, and produced pop songs and videos.³⁵¹ These are all countries where TANs mobilized to assist local campaigns. The Bank has always emphasized that client governments need “the PPP process to be accompanied by an effective communication strategy,” and even published a 75 page toolkit for task team leaders and client governments titled *Public Communication Programs for Privatization Projects*.³⁵²

TANs’ leverage vis-à-vis country campaigns occurred at times through the “boomerang” effect--lobbying donor governments and Bank Executive Directors, and intermediation with Bank staff. But as I discussed in Chapter 4, this was not a primary strategy deployed by the WSS TANs, with the exception of the campaign to reduce donor contributions to PPIAF. That campaign was only minimally effective in material terms, insofar as activists were unable to pressure major donors, like the U.K., to reduce funding. However, it did succeed in publicizing the role of PPIAF in the Bank.

TANs’ influence on change in Bank’s agenda has therefore been mediated primarily through the effects of country campaigns. As I discuss next, direct engagement with the Bank by some TANs and NGOs has been largely unsuccessful, and has reflected divisions in the movement between “hard-line” anti-privatization activists and development/advocacy CSOs. Unlike other NGO campaigns directed at

³⁵¹ Memorandum submitted by the World Development Movement to the U.K.’s House of Commons, International Development Committee, Select Committee Inquiry on Water and Sanitation. October 2006. Published April 17, 2007.

<http://www.publications.parliament.uk/pa/cm200607/cmselect/cmintdev/126/126we01.htm> (January 3, 2011). The privatization program was supported by the World Bank; Biwater, a British TNC, had won the water contract in Dar es Salaam, which was later terminated.

³⁵² World Bank External Affairs Department, Development Communications Unit. 2002. “Public Communication Programs for Privatization Projects.” (Washington, D.C.: The World Bank). See also “Operational Guidance for World Bank Group Staff,” April 2004, 18.

the Bank, there were no significant insider-outsider alliances that pushed for agenda change in PSP policies inside the Bank. This is very likely due to the nature of the issue area. In contrast to issue areas such as environmental protection, protection of indigenous populations, or involuntary resettlement policies, private sector participation goes to the heart of the Bank's governing paradigm. Just as with campaigns against the Bank's structural adjustment policies (of which PSP/privatization is of course a component part), insider-outsider alliances did not materialize, given the fundamental issues raised, and the presumed limits of heterodoxy that Bank management would tolerate among Bank staff.³⁵³

The Failure of Direct Engagement between the Bank and CSOs

There have been at least three attempts by CSOs over the last decade to formally engage the World Bank in a discussion of WSS issues related to PSP, urban WSS, and/or greater participation of CSOs in influencing Bank policies and projects. The first attempt was led by Washington-based CSOs in 2003 and focused on how to involve participation by southern CSOs in the anti-privatization movements, especially in Latin America. Bank officials halted that dialogue due to weak buy-in from senior staff.³⁵⁴ The second attempt was led by London-based CSOs, hosted by WaterAid, which extended invitations to a variety of TANs and NGOs, including

³⁵³ For a fuller discussion see Karen Travis, May 2000. "Transnational Mobilization Against Structural Adjustment Policies: A Case Study of the Structural Adjustment Participatory Review Initiative and its Associated Civil Society Network." Paper presented at a conference on *Democracy in the Age of CNN*, University of Padua, Padua, Italy, May 25-27, 2000.

³⁵⁴ Calaguas, Belinda. April 8, 2006. "Why have Bank-CSO Dialogues on Water Faltered?" Bretton Woods Project, Update 50. <http://www.brettonwoodsproject.org/art.shtml?x=531787> (May 6, 2009) See also Bretton Woods Project. February 2, 2005. "Cautious Dialogue as Conflict over Water Continues." Update 44. <http://www.brettonwoodsproject.org/art.shtml?x=107753> (December 30, 2010).

Public Citizen's Water for All campaign, to join in the kick-off of the dialogue in London in November 2004.³⁵⁵ However, most of the CSOs focused on anti-privatization campaigns (particularly in North and Latin America) boycotted the London meeting.³⁵⁶ At the time, I was en route to Uruguay to conduct research, and was asked by Public Citizen to confirm that a leader of the CNDAV coalition in Uruguay had seen the joint letter that Public Citizen had drafted along with other North and Latin American activist CSOs declining WaterAid's invitation.³⁵⁷ The draft letter, addressed to WaterAid's Director Ravi Narayanan and Jamal Saghir at the Bank, dismissed past CSO-Bank undertakings:

Unfortunately, the history of World Bank consultative and review processes on issues of concern to civil society- the World Commission on Dams, the Structural Adjustment Participatory Review Initiative, and the Extractive Industries Review (processes that were much larger and more developed than this proposed dialogue) makes us skeptical that this dialogue will seriously engage with the important issues that concern our constituencies.³⁵⁸

The letter went on to criticize the proposed dialogue on the grounds that it focused disproportionately on northern NGOs and took place in a northern venue; the agenda failed to address key constituency concerns, such as cost recovery, PSP, and legal and institutional reforms; and no high-level follow-up mechanisms were included as part of the proposed dialogue. In contrast, WaterAid's then advocacy-director, Belinda

³⁵⁵ Personal communication with Sara Grusky, Water for All campaign, Washington, D.C., October 2004.

³⁵⁶ Personal communications with Sara Grusky, Water for All campaign. The letter was signed by Public Citizen, the Council of Canadians, and member campaigns affiliated with Red VIDA, among other groups. See also: Calaguas, Belinda. April 8, 2006. "Why have Bank-CSO Dialogues on Water Faltered?" Bretton Woods Project, Update 50. <http://www.brettonwoodsproject.org/art.shtml?x=531787> (May 6, 2009)

³⁵⁷ Alberto Villareal was a key leader in CNDAV and in REDES (Friends of the Earth-Uruguay). He added his name to the letter declining the invitation.

³⁵⁸ Personal copy of draft letter provided by Sara Grusky, Water for All campaign.

Calaguas, characterized the second attempt at engagement as initially successful in drawing social movement and service delivery CSOs from Africa, Asia, and Central America and in reaching an agreement on a program of joint research. Calaguas noted that the agenda this time did not focus exclusively on privatization, but included commitments from the Bank to make project information more accessible and to begin a dialogue on cost recovery. Calaguas believes the Bank was more committed to the second round of dialogues because it wanted to mitigate risks associated with its intention to treble its investments in WSS, including in public utilities and the domestic private sectors. Calaguas' view, which I cannot corroborate, is that the Bank believed the involvement of development and service NGOs such as WaterAid "could ensure that there was accountability from the public utilities and the government officials responsible for them."³⁵⁹

The follow-up Bank-CSO work program on cost recovery further exposed the rift between WaterAid and NGOs such as Consumers International, and what Calaguas called the "anti-privatization social movements." I was privy to an email exchange between the Water for All campaign and Belinda Calaguas that illustrated the fault lines in this debate. WaterAid had drawn up terms of reference (TOR) for the cost recovery research which would test the following hypothesis: "Consumer/citizen participation improves the design and effectiveness of cost recovery." It proposed that the case studies be carried out in a number of countries where a range of institutional arrangements for public participation in water tariff

³⁵⁹ Calaguas, Belinda. April 8, 2006. "Why have Bank-CSO Dialogues on Water Faltered?" Bretton Woods Project, Update 50. <http://www.brettonwoodsproject.org/art.shtml?x=531787> (May 6, 2009)

decision-making were in existence.³⁶⁰ Maj Fiil and Sara Grusky of Water for All wrote Calaguas questioning the proposed hypothesis for focusing on the link between participation and increasing revenue. They argued that this ignored the link between participation and “accountability to citizens, improvement of the utility’s performance... and the ability to pay, and equity of service delivered for the fee which is charged...the real issue is not cost recovery but expanding access.” As I note in the footnote, the TOR were originally phrased to make this link more explicit. Nevertheless, this exchange underscores the very real splits among TANs, which can’t be solely attributed to the difference between development NGOs, such as WaterAid, and the “anti-privatization/social activist” TANs. WaterAid and FAN have also engaged in advocacy and activism, and WaterAid has certainly questioned the pro-PSP agenda of the Bank and IFIs in its research, lobbying, and advocacy work.³⁶¹ But at a deeper level, the differences may in fact reflect the experience WaterAid has had on the ground in its work on WSS service provision. For example, WaterAid has recognized that small-scale private providers have been virtually the only “game in town” in rural and often also in peri-urban WSS provision. It has also taken the position organizationally, as I noted in Chapter 3, that some level of cost

³⁶⁰ Letter to WSS CSOs attached to an email to Public Citizen from Belinda Calaguas, dated September 30, 2005. This email also included the attachment “Terms of Reference: WaterAid Discussion Paper on Cost Recovery,” dated July 29, 2005. In the July terms of reference, the cost recovery hypothesis was framed more broadly and skeptically: “test the working hypothesis regarding whether and how cost recovery policy can be an instrument for achieving universal services, particularly, ensuring sustainable service to the urban poor... In case of the opposite impact, cost recovery leading to exclusion from services—identify the factors that explain why this happens.”

³⁶¹ See for example WaterAid and Tearfund, 2003. “New Rules, New Roles: Does PSP Benefit the Poor? Synthesis Report.” <http://tilz.tearfund.org/webdocs/Website/Campaigning/Policy%20and%20research/newrulesnewroles.pdf> (November 29, 2009).

recovery is needed to ensure utilities' operational viability, fully recognizing, however, that this does not obviate the need for subsidizing the poor.

The third dialogue activity between CSOs and the Bank was spearheaded by FAN in February 2007 and involved two components: an initiative to generate funding requests to finance policy dialogue and operational collaboration on water issues at the country level, and a scoping study on how to promote more systematic dialogue. These initiatives generated 38 proposals for dialogue activities, but only two came from the World Bank, and those two originated in the Water Anchor: none were proposed by task team leaders (TTLs) actually managing WSS projects.³⁶² The Bank noted that “Unfortunately, because of a lack of available funding and support from Bank Task Team Leaders, none of these proposals ended up being funded.”³⁶³ The consultants hired by FAN to research and evaluate the scoping study process, Brendan Martin and Sue Cavill of the U.K.-based NGO Public World, noted that the main stumbling blocks seemed to be either insufficient capacity or commitment by either the Bank or CSOs. Of particular interest, Martin and Cavill identified:

an unexpected mismatch between the concerns of CSOs and Bank officials at the country level. The dialogue activities proposed by CSOs at the country level did not tend to focus on policy issues such as consumer accountability, tariff structures, the role of small scale providers, and corruption. Yet for Bank task teams normally operating in several countries in parallel, those are the subjects in which they tend to hope CSOs might have some comparative advantage.³⁶⁴

³⁶² Martin, Brendan and Cavill, Sue. January 2008. “FAN-World Bank Scoping Study about Developing Dialogue between the World Bank and Civil Society Organizations about Urban Water and Sanitation Services: Commentary about the Scoping Experience and its Lessons.” London, U.K.: Public World.

³⁶³ The World Bank 2009. *World Bank-Civil Society Engagement: Review of Fiscal Years 2007-2009*. Washington, D.C.:International Bank for Reconstruction and Development, 9-11.

³⁶⁴ Martin and Cavill. January 2008, 5.

Martin and Cavill went on to reiterate that whatever the cause of the failure of this dialogue, the perception that “few World Bank staff outside of the Water Anchor have engaged with the process is real and justified.” Relations between the Bank and CSOs were in the main mediated by consultants.

Although the Bank clearly acknowledged the failure of this dialogue activity, its description of engagement with CSOs on the issue of WSS between 2007 and 2009 is put forward in a much more positive light:

The World Bank’s Water Unit has intensified its engagement over the last three years with a variety of policy advocacy CSOs on the issues of access, rights, and ownership of urban water and sanitation programs. Of particular concern to CSOs have been the issues of water privatization, cost-recovery approaches, and lack of water services for low income populations in Bank-financed water and sanitation projects. For its part, the Bank has welcomed this dialogue because it clearly shares with civil society the goal of extending universal coverage to the poor in developing countries. Within this context, the Bank has undertaken important meetings and joint research projects with leading NGOs, trade unions, and research centers during this period...The key CSO interlocutor to emerge during this period was Freshwater Action Network (FAN).³⁶⁵

In contrast, a senior water specialist in the Water Anchor at the Bank confirmed to me in a March 2009 interview that very few staff resources at the Bank have been devoted to engaging CSOs on WSS:³⁶⁶

It’s really just me. Lots of expressions of interest by CSOs, but it’s been hard to match this to Bank staff; staff say that they already have a dialogue [at the country level]. The amount of time World Bank staff spends on these dialogues has been countable in days, not weeks. The intangible output is bigger than the tangible output.

³⁶⁵ The World Bank 2009. *World Bank-Civil Society Engagement: Review of Fiscal Years 2007-2009*, 9-11.

³⁶⁶ Interview 2.

I asked the liaison what the Bank had learned from CSO input, and vice versa. The response was that there were differences in CSOs' orientation that made this hard to evaluate: "some CSOs like Consumers International have a middle class constituency and were more interested in tariff-related issues and informal water consumer groups. Others, like FAN, were focused on service to the poor." In response to my question about whether anti-privatization protests had affected Bank policies, the liaison responded:

It's still a polarized debate. There are tensions between anti-privatization activists and those interested in delivering water. Advocacy is cheaper than building toilets...Activists have been spinning their wheels. There are protests against PSP, then things realign and move forward...Yes, activism has influenced the Bank. It's made it more risk-averse, and probably made projects better. The protests sped up a process that might have occurred anyway. The underlying thoughts about what made service delivery work have been around for a long time....PSP in water is just one expression of a neoliberal agenda.

I interpret these remarks as an acknowledgement that the activists focused the Bank's attention on deficiencies in PSP projects that were already surfacing, related to the absence of necessary institutional infrastructure and questionable impacts on the poor. The liaison has a background in public utilities and also acknowledged that the Bank had done too little analytical work on public utilities, especially the replicability of successful ones. But the liaison also pointed to "charismatic leaders" as a factor in the success of some public utilities (Uganda is often cited), and wondered aloud if the RPW network knew "that Suez was a consultant to the [public utility] in Phnom Penh." The liaison summed up by saying that "the final answer to the PSP challenge would be to bring countries back to the global level inside the Bank," implying that a

Bank-wide policy would be needed if the goal was to create a uniform and consistent policy inside the Bank.

Activists' Views of their Influence on the PSP Agenda

I have asked several activists whether they felt their campaigns or organizations had effected agenda change at the Bank. As I noted earlier, WDM's Vicki Cann stressed that this certainly occurred through country level campaigns, and most activists would agree that campaigns have been in part responsible for a shift in the Bank's approach to PSP. But many are equally reluctant to state that any change has occurred, especially among the hard-line anti-privatization activists. A former campaign organizer for FWW and committed international activist expressed it this way to me: "Even if the IFIs have 'reformed,' it's still the population of the countries that have paid the price—and continue to pay the price, for SAPs. This explains the continued rhetoric and attitudes against the Bank."³⁶⁷ I encountered a similar dualism when I interviewed PSIRU's two lead researchers, David Hall and Emanuele Lobina. Lobina voiced the view that "Overall, CSOs have not been instrumental in changing the Bank's attitude towards PSP. The rhetoric changes at big events, but the actions are still the same—there's a striking coherence from 2000-2009." In contrast, David Hall stated: "I'm surprised by how much impact we've had. We made a huge difference at the global level. CSOs have opened up space, particularly through

³⁶⁷ Interview with Jeff Conant, July 7, 2009, San Francisco, California.

campaigns at the country level.”³⁶⁸ Belinda Calaguas attributed change in the Bank to several factors. She told me:

CSOs’ protest actions created policy space. But the private sector also said that PSP would not work. There were rifts within the Bank. Some in the Bank [the civil society unit] said to others, you have to hear the activists out. The intransigents came from the infrastructure part of the Bank and regional divisions.³⁶⁹

5.6. Conclusion

Each of the views expressed above contains a piece of truth about how activism ultimately influenced the Bank. Lobina’s view captures the continued tension within the Bank between ideology and pragmatism/realism that I discussed in Chapter 4. Calaguas identifies internal schisms within the Bank, but these schisms related to the *process* of engagement with CSOs. It did not signify a base of support within the Bank that could be leveraged through insider-outsider alliances, as I noted previously.³⁷⁰ Hall, Cann, and other activists acknowledge that country campaigns certainly contributed to dampening both TNCs’ and the Bank’s enthusiasm for PSP. Figure 4 ascribes more of the pressure on TNCs to country campaigns than to direct actions taken by TANs (shown as having a moderate effect). International corporate campaigns were not a central piece of activist strategies, and the international campaign against Suez was only launched towards the middle part of the decade. But the effect of negative publicity on the TNCs was not negligible either. AquaFed’s

³⁶⁸ Interview with David Hall and Emanuele Lobina, PSIRU. March 9, 2009. London, U.K.

³⁶⁹ Interview with Belinda Calaguas, Action Aid, March 12, 2009, London, U.K.

³⁷⁰ This is not to say that individuals within the Bank may not have been sympathetic to concerns raised by NGOs, but a critical mass of “insiders” never emerged with which an alliance could be forged.

President Gerard Payen confirmed this at Water Week 2009: “Private operators were used as scapegoats...we suffered attacks.”³⁷¹ Bakker states that the broad range and sustained nature of protests against PSP increased political risks to private operators, “which had the effect of raising the cost of PSP, and according to some observers, contributed to reduced private sector interest in long term concessions.”³⁷² As Figure 4 illustrates, I also hold that negative publicity generated through activist gatherings at international events has had a moderate influence on the Bank, though this is my own estimate of the weight which attached to these events. The effect of negative publicity against the Bank is likely to have been strongest at the WWFs, since the international press reported oppositional activities fairly prominently.

At the end of the decade, some activists may be turning their focus back on the Bank, specifically, the IFC. Corporate Accountability International intends to launch a new campaign targeting the IFC, claiming it is the new locus of activity for PSP through non-transparent investments in, and loans to, financial intermediaries.³⁷³ This strategy appears to be leveraging other multi-issue NGOs’ new focus on the IFC, just as happened earlier in the decade. It remains to be seen whether this will metamorphose into a new phase of campaigning against PSP in WSS within the World Bank Group.

³⁷¹ Remarks by Gerard Payen at the World Bank’s Water Week 2009.

³⁷² Bakker. April 2009. “Overview Paper: Recent Trends in PSP, Financing, and Regulation in the Water Sector.”

<http://www.waterdialogues.org/downloads/new/TP-Overview-28-April.doc> (August 29, 2009), 3.

³⁷³ Phone conversation with Joby Gelbspan, Senior water campaigner, CAI, November 12, 2010.

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TYPE OF ORGANIZATION (Location, Scope)	NAME	DESCRIPTION OF ORGANIZATION	ACTIVITIES RELATED TO WATER PRIVATIZATION
INTERNATIONAL MEMBERSHIP-BASED CIVIL SOCIETY ORGANIZATIONS	Consumers International (active first part of decade)	<ul style="list-style-type: none"> Supports, links, and represents consumer groups and agencies worldwide. Membership of more than 250 organizations in over 100 countries. Governing Board elected directly at World Congress. Over one-third of income is from membership fees. Campaigns and programs in many areas. 	<ul style="list-style-type: none"> Water was theme for World Consumer Rights Day, 2004. Issued Policy Statement on Water and Sanitation in March 2004 promoting principles adopted by U.N., e.g., recognizing access to water as a basic right, characterizing water as a public good which should be subject to effective state regulation. Supported national-level campaigns in member countries, e.g. Uruguay constitutional reform campaign. Former Senior Advisor on Board of PPIAF and Water Dialogues.
	Friends of the Earth-International (FOE-I) (active first part of decade)	<ul style="list-style-type: none"> World's largest grassroots environmental network, with member groups in 68 countries plus 15 affiliates, with approx. 1 million members. Annual budget: \$200 million. Functions as confederation of member groups. Members fully independent, prioritize their own country campaigns, but agree on set of common ground rules. Largely rely on self-funding. Exec. Committee with chair and members 	<ul style="list-style-type: none"> Water became a new campaign in 2003. Overlapped with FOE-I's Trade, Corporates, and IFIs campaigns. FOE-I published "Water Justice for All" for release at World Water Forum in Kyoto in 2003, with 14 case studies of FOE groups working on campaigns. During 2003-2004, took the position that water as a resource should never be privatized, but allows for many models of water delivery, including some private provision with effective regulation, public

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		<p>elected from 7-8 countries. Bi-annual General Meeting identifies priority campaigns.</p> <ul style="list-style-type: none"> As of 2003, 10 priority campaign areas, including e.g., climate change, forests, mining, biodiversity, trade, IFIs, and water. 	<p>systems, and collective/communally-run systems.</p> <ul style="list-style-type: none"> Update 2010: FOE-I groups “campaign for innovative public-public partnerships for water management, water reduction and reuse, and restoring rivers and wetlands to more natural states. FOE does not currently have an international water program in place, but cites to “many groups working on a national level on water issues.”
	<p>Public Services International (PSI)</p>	<ul style="list-style-type: none"> Global union federation that represents public sector workers, with about 20 million members, and over 650 affiliated unions in 148 countries. Four regional and 20 sub-regional offices. Recognized NGO for the public sector in the ILO. Governed by quintennial congress, made up of delegates from all PSI affiliates. Congress adopts policy documents, resolutions, statements of action and programs which are basis of next five-year focus. PSI and affiliated research unit, PSIRU, have been consistently 	<ul style="list-style-type: none"> Represents unionized water utility workers in developed and developing countries, often in the forefront of campaigns against WSS privatization. Campaign on “quality public services” includes keeping water utilities in the public sector. Affiliates have been active in anti-privatization campaigns in Argentina, Brazil, Peru, Uruguay, South Africa, U.K., the U.S., and Canada, among other countries. PSI’s Research Unit (PSIRU), affiliated with University of Greenwich/U.K., has produced an extensive library of publications, including analyses and

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		active in all TANs against water privatization and in international organizations, as representatives of public sector workers.	critiques of water utility privatizations, TNCs in the WSS sector, analysis of DFI policies, and alternatives to PSP.
REGIONAL NETWORKS OF CSOs	Red VIDA (Inter-American Network for Vigilance on the Defense of and Right to Water)	<ul style="list-style-type: none"> ♦ La Red Vigilancia Interamericana para la Defensa y Derecho al Agua (Red VIDA) was formed in San Salvador, El Salvador in August 2003 when 54 organizations from 16 countries joined together to launch a hemispheric network and campaign “in defense of water as a public good and a fundamental right. “ ♦ The network consists of consumer associations, women’s organizations, environmentalists, labor unions, human rights activists, religious groups, indigenous groups and social organizations from 17 countries in North, Central and South America. ♦ Active presence in water justice TANs and at international conferences. 	<ul style="list-style-type: none"> ♦ San Salvador Declaration for the Defense and Right to Water affirmed 11 principles, including: water as a public good and human right, not a commodity; water conservation and integrated management; exclusion of water from trade negotiations; recognition of gender inequality in access and rights; strengthening public utilities and autonomy of communal and rural water systems. ♦ Initial program of Network in 2004 was launching continental campaign: “No to Privatization of Water. Yes to Public Management with Social Participation.” ♦ In second half of decade, work has focused on building new models of social organization such as PUPs and community partnerships and institutionalizing opposition to privatization through legal and constitutional

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			mechanisms.
U.S. NGO	Corporate Accountability International (CAI)	<ul style="list-style-type: none"> ♦ Has “waged s campaigns to challenge corporate abuse for more than 30 years.” ♦ Various high-profile campaigns against corporations involved in producing/distributin g infant formula, tobacco, nuclear weapons. Tobacco campaign culminated 	<ul style="list-style-type: none"> ♦ “Think Outside the Bottle campaign” targets major bottlers for “manufacturing demand for the bottled water market by eroding confidence in public tap water.” ♦ Works with other NGOs and CSOs on formalizing right to water in the U.N. ♦ Launching new campaign targeting the

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		in “the world's first corporate accountability treaty - the Framework Convention on Tobacco Control.”	International Finance Corporation (IFC, World Bank Group) for promotion of PSP through equity investments in water TNCs, posing a conflict of interest, and other non-transparent support for PSP in WSS to financial intermediaries.
U.S. NGO	<p style="text-align: center;">Public Citizen’s Water For All Campaign (to 2005)</p> <p style="text-align: center;">Food and Water Watch (successor)</p>	<ul style="list-style-type: none"> ♦ Non-profit research, lobbying and litigation NGO that advocates for consumer protection and corporate accountability. ♦ “Water for All” Campaign “worked with citizens’ groups in the U.S. and internationally to build awareness about water privatization.” ♦ In U.S., monitors state and federal legislation, opposes bulk water exportation, and sales of surface and groundwater, supports groups defending municipal water utilities. See next box on the International Campaign. ♦ FWW now more focused on U.S. campaigns; also active in right to water advocacy in the U.N., in tandem with 	<ul style="list-style-type: none"> ♦ Water For All International Campaign disseminated reports, research and “built international networks of solidarity with citizens’ groups that oppose water privatization efforts” of the water TNCs, IFIs, regional MDBs and WTO. ♦ Worked with grassroots coalitions in many countries to ensure broad, bottom-up participation in international meetings and forums. ♦ Publication “Defend the Global Commons” provided detailed reports on CSO activism around the world. ♦ Public Citizen-Water For All and FWW were/are the most active CSO in U.S. around water privatization, combining research and publications with

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		Council of Canadians.	outreach and global networking. Engaged in global networks such as WSF and Red VIDA.
CANADIAN CSO	Council of Canadians	<ul style="list-style-type: none"> ♦ Canada's non-partisan citizens' watchdog org., with 100,000 members and 70 chapters across the country. Lobbies MPs, conducts research, and runs national campaigns. Current campaigns include biotechnology, Health, Trade, Water and the Blue Planet Project. ♦ Funded by member support and grants. ♦ In early 1999, the Council launched the Water Campaign to ban the bulk export of Canadian water and prevent "the gradual commodification and privatization of this priceless public resource." Works to protect Canadian lakes, rivers, and aquifers from appropriation by private investors. 	<ul style="list-style-type: none"> ♦ Blue Planet Project is an international effort launched by the Council "to protect the world's fresh water from growing threats of trade and privatization." Published (in conjunction with Polaris Institute), "Blue Gold," popular book cited by activists orgs. that warns against global water exploitation by the "water barons." ♦ Council instrumental in forming "Water is Life" coalition with other activist CSOs prior to Third World Water Forum in Kyoto (2003). Vision Statement signed by 300 CSOs. Active in international forums (such as WSF, Red VIDA), and provides solidarity support to country campaigns (e.g., water campaign in Uruguay).
U.K. NGO	Freshwater Action Network (FAN)	<ul style="list-style-type: none"> ♦ FAN was launched at second WWF in 2000. It is a consortium of five 	<ul style="list-style-type: none"> ♦ Engages in capacity-building activities "to create a strong and vibrant civil society

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		<p>regional networks with over 900 member organizations in 89 countries – each working on their own regional strategies as well as collaborating globally through the global network.</p> <ul style="list-style-type: none"> ♦ Describes its members as mostly grassroots CSOs working in challenging situations, such as urban slums and degraded environments, with weak governance and inadequate legal or regulatory frameworks. Goal is to build capacity for participation, advocacy, and lobbying activities. ♦ Hosted by WaterAid, no independent legal structure. ♦ The network coordinates local inputs into a diverse range of high level forums including the WWF and Stockholm Water Week. Monitors processes such as tracking progress on the MDGs, U.N. climate change negotiations and the rights to water and sanitation. 	<p>that can hold governments and other powerful institutions to account.” Examples include “training of trainers” for advocacy work.</p> <ul style="list-style-type: none"> ♦ Main emphasis is on building the capacity of CSOs in regional networks to engage with policymakers at all levels. ♦ Four thematic focus areas identified for next five year strategy: governance, transparency and monitoring; Integrated Water Resource Management and climate change; trans-boundary waters; and the rights to water and sanitation ♦ Much less emphasis on PSP as an issue than other networks or CSOs; regional network in South Asia (FANSA) is the main network to express a concern with “commercialization” of water.

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U.K. NGO	WaterAid	<ul style="list-style-type: none"> ◆ Founded in 1981, it is the U.K.'s major charity dedicated exclusively to the provision of domestic water, sanitation, and hygiene education to the world's poor. Helps local organizations in developing countries set up low-cost sustainable projects using appropriate technology. States that it is "one of the leading international NGOs in the global drinking water sector." ◆ Unlike the other CSOs and networks listed in this table, WaterAid was established by the UK water industry, and has received up to 25 percent its income from privatized UK water companies, other UK water authorities, and corporations. Also receives substantial funding from the U.K. government, the EU, as well as from trusts, individuals, and public campaigns. ◆ Seeks to influence national governments, donors, and IFIs. Has called on U.K. Government to spend more on water aid to poor. 	<ul style="list-style-type: none"> ◆ Has programs in 15 countries throughout Africa and Asia, where there are the largest number of poor people without access to safe water. ◆ Local partners identify projects and programs which are assessed by WaterAid in-country representatives to ensure that projects integrate water supply, sanitation, and hygiene. Communities involved in all stages of the project: planning, construction, maintenance. Supports capacity-building of partner organizations. Estimates that completed projects have helped over eight million people gain access to improved water supplies. ◆ Sees role for small-scale domestic private sector. Has been critical of PSP, especially in view of insufficient regulatory capacity, lack of community participation, and lack of institutions in developing countries. ◆ Has been a member of the Water Dialogues Board.

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U.K. NGO	World Development Movement (WDM)	<ul style="list-style-type: none"> ♦ WDM is an anti-poverty organization founded in 1970 which advocates for “the right of poor communities to determine their own path out of poverty, and an end to harmful policies which put profit before people and the environment.” ♦ 15,000 supporters and a network of 60 local groups across the U.K. ♦ Lobbies decision-makers, organizes public campaigns, and conducts research (does not provide aid or support for projects). ♦ “Only U.K.-based anti-poverty campaigning organisation with a network of groups taking collective action at a local level.” 	<ul style="list-style-type: none"> ♦ Has had high profile in the water justice movement and among anti-privatization TANs. Primary campaign between 2005-2008 focused on removing PSP conditionality from DFID’s bilateral WSS aid to client countries. Claims the following successes as a result of the water campaign: ♦ In 2009, the EU announced it would commit 40 million Euros to support progressive public water schemes in developing countries. ♦ In March 2007, Secretary of State for International Development Hilary Benn announced support for the public water sector in developing countries, marking a shift away from DFID’s previous approach. ♦ Campaign successfully pressured U.K. water TNC Severn Trent to withdraw from bidding on PSP contract in Nepal (2007). Campaign in Ghana in 2005 similarly convinced TNC Biwater to withdraw from bid.

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EUROPEAN NGO	Corporate Europe Observatory/ Transnational Institute	<ul style="list-style-type: none"> ♦ The Transnational Institute (TNI) was established in 1974 as an international network of activist researchers (“scholar activists”) committed to critical analyses of global problems. “It aims to provide intellectual support to movements struggling for a more democratic, equitable and environmentally sustainable world.” ♦ Sources of funding come from a variety of progressive NGOs and foundations as well as the Danish, Dutch, Finnish and German governments and the European Union. ♦ Corporate Europe Observatory (CEO) describes itself as a research and campaign group “working to expose and challenge the privileged access and influence enjoyed by corporations and their lobby groups in EU policy making.” It is located in the same office building as TNI in Amsterdam. 	<ul style="list-style-type: none"> ♦ Jointly runs the “Water Justice Project,” described as “engaged in the work of building viable alternatives to water privatisation, focused on how to reform public utilities in order to make the human right to water a reality for everyone.” ♦ Acts as the facilitating hub of the Reclaim Public Water network; advocates for public-public partnerships (PUPs); facilitates global, regional and local collective learning processes. “TNI plays a critical role in linking up campaigners from civil society movements across the world with resource people from the network.” ♦ Campaigns and lobbies donor governments, IFIs, and actors like the EU Commission to “end their bias towards funding private sector solutions” and support effective public water service provision. ♦ Represents civil society's voice in the UN’s Global Water Operators Partnerships Alliance (GWOPA).

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GLOBAL NETWORKS OF CSOs	World Social Forums	<ul style="list-style-type: none"> Established as alternative to World Economic Forum, to represent voices of civil society opposed to “neoliberal globalization.”. WSF is “not an organisation, not a united front platform, but “...an open meeting place for reflective thinking, democratic debate of ideas...by groups and movements of civil society that are opposed to neo-liberalism...and are committed to building a society centered on the human person”. (WSF Charter of Principles). WSF 2004 in Mumbai, India drew around 100,000 participants from over 100 countries, with goal of greater representation of poor than at past events. 	<ul style="list-style-type: none"> Meetings in Porto Alegre, Brazil and Mumbai, India during the first half of the decade and in Nairobi, Kenya in 2007 have attracted many water activists. Various loose networks of water activists coordinated 16 water-related events at the fourth WSF in Mumbai, where the Reclaiming Public Water network was formed. Eleven of these events dealt with privatization, corporate control, public financing, and strategies/citizen participation. A two-day “People’s World Water Forum” (PWWF), held in New Delhi prior to the start of the WSF IV, crafted Declaration of Peoples’ World Water Movement committing to action plan against water TNCs, World Bank, privatization.
International Multistakeholder Initiative: The Water Dialogues		<ul style="list-style-type: none"> The Water Dialogues were a series of national multistakeholder dialogues and research processes examining whether and how the private sector can contribute to the delivery of affordable and sustainable WSS 	<ul style="list-style-type: none"> Key principle was that dialogue should take place between those directly engaged in national and local sector issues. Some national working groups used consensus-based dialogue, others (South Africa) used confrontational

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		<p>services, especially to poor communities. Lasted from 2002 through 2009.</p> <ul style="list-style-type: none"> ♦ Traced its origins to the 2001 Bonn Freshwater Conference where the German Minister for Economic Cooperation and Development, expressed support for a “stakeholder dialogue” to review issues surrounding PSP. ♦ In 2004, following an in-depth scoping review involving over 300 interviewees, participants at a Conference in Berlin mandated the Working Group – <i>the Brazilian Association of Municipal Water and Sanitation Public Operators, Consumers International, the Environmental Monitoring Group (South Africa), Public Service International, RWE Thames Water (UK), the Ugandan Association of Private Water Operators, and WaterAid(UK)</i> – to advance a project linking national dialogues under an international umbrella. 	<p>dialogue. Both styles generated some transformation in views in each group, underscoring the value of the process.</p> <ul style="list-style-type: none"> ♦ Scoping study identified five major PSP themes for national working groups (NWGs) to tackle: Financing water and sanitation services; meeting the MDGs; achieving good governance and accountability; managing effectively and efficiently; and safeguarding public interests. ♦ Evidence from primary case studies served as the basis for dialogue and trust-building in several countries. ♦ Final report noted that: “Some participants in the international debate now offer a more nuanced understanding of the broad range of private actors – both formal and informal, profit and not-for-profit – participating in the water supply sector...[t]he issue of the relative merits of the public and private sector as water service providers has been joined (and to some extent supplanted) by other issues, including financing and regulation.”

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		<ul style="list-style-type: none"> ♦ National Dialogues were established in five countries – Brazil, Indonesia, the Philippines, South Africa and Uganda – with an International Working Group providing an oversight and networking function. 	<ul style="list-style-type: none"> ♦ Consensus that concessions are no longer a widely-applicable model and there is a need to find alternative sources of financing. ♦ Broad agreement (although not full consensus) on the need for a strong regulatory framework for public and private operators alike.

Chapter 6: The Successful Campaign to Reform Uruguay's Constitution to Prohibit Private Sector Participation in WSS

Una gota con ser poco, con otras se hace un aguacero
One drop is too small, but with others becomes a downpour

-Daniel Viglietti
Milonga de andar lejos, 1984³⁷⁴

On October 31 we are all Uruguayans.

- Maude Barlow³⁷⁵

6.1. Introduction

These lyrics from folk singer Daniel Viglietti's internationally beloved song were adopted as the motto of Uruguay's *Comisión Nacional en Defensa del Agua y de la Vida* (CNDAV, the National Commission in Defense of Water and Life) in its successful constitutional reform campaign to prohibit the private provision of water and sanitation services. Viglietti, who was imprisoned and then forced into a twelve year exile during the brutal Uruguayan military dictatorship (1973-85), wrote this song about overcoming poverty, oppression, and exile through transnational solidarity. He sang it again to an adoring crowd which had gathered in the *Plaza Primer de Mayo* across from the Legislative Assembly building in Montevideo on October 23, 2004. The crowd of about 200 people, in which I was an observer, rallied to support the upcoming plebiscite vote during the five-year general election scheduled for October 31, 2004. In that historic election the left-wing coalition, Frente Amplio-Encuentro Progresista (Broad Front-Progressive Encounter, FA-

³⁷⁴ Daniel Viglietti, 1984. Recorded on *Canciones de mi America*.

³⁷⁵ Author of *Blue Gold: The Battle Against Corporate Theft of the World's Water* (with Tony Clarke), 2002; and *Blue Covenant: The Global Water Crisis and the Fight for the Right to Water*. McClelland & Stewart, Toronto, 2007.

EP),³⁷⁶ wrested the Presidency from the two traditional parties, the Colorados and Blancos, for the first time in the country's 176-year history.

The plebiscite which was the focus of CNDV's campaign won with 64.6 percent of the vote, garnering almost 15 percent more of the popular vote than was won by FA-EP President Tabaré Vasquez in his historic victory (Vasquez won with 50.4 percent of the vote). The plebiscite won in 16 out of 19 Departments,³⁷⁷ compared to FA-EP victories in seven of 19 Departments.³⁷⁸ The plebiscite amended the Constitution to codify the following principles:

- Access to water and sanitation are fundamental human rights
- Social considerations take priority over economic considerations in water policies
- WSS will be provided directly and exclusively by the public sector
- WSS will be managed according to principles of environmental sustainability and solidarity with future generations.
- Civil society will participate in all aspects of planning, management, and control of water; and
- Compensation for existing private concessions will only be for non-amortized physical investments, not for lost future profits.

The successful constitutional reform (CR) of 2004 thus changed the legal framework of WSS provision in Uruguay. The two private concessionaires and 14 small private sector operators that existed before the plebiscite were subsequently either terminated or re-absorbed by the state-owned water and sewerage utility, the *Administración de las Obras Sanitarias del Estado* (OSE, see Box 1). All WSS services are now

³⁷⁶ During the 2004 elections the Frente Amplio coalition was actually made of up three political forces which in turn subsumed different "factions" or "fractions" (see further discussion of this terminology in the Chapter). These were the Frente Amplio (Broad Front), Encuentra Progresista (Progressive Encounter), and Nueva Mayoría (New Majority). I use FA-EP as a shorthand, referring to the two largest political forces in the coalition.

³⁷⁷ Departments are administrative/geographical units.

³⁷⁸ Government of Uruguay, Electoral Court (*Corte Electoral de Uruguay*). : <http://elecciones.corteelectoral.gub.uy/20041031/SSPConsulta.asp?TipoCons=A&Acto=20041031&Org>. (November 26, 2004)

provided either by OSE, the Municipality of Montevideo (for sanitation), or by an OSE subsidiary, in the case of the former private Maldonado concessions.³⁷⁹

The constitutional amendment set an international precedent for the transnational movement against water privatization by making the private provision of WSS illegal. Uruguayan activist-researcher Carlos Santos claims that the reform was also one of the first instances where the requirement for environmentally-sustainable provision was incorporated in a constitution. The CR strategy was also used to publicize the perceived risks of the loss of national sovereignty under bilateral investment treaties and closed-door dispute settlement mechanisms, such as the World Bank's ICSID. The Uruguayan case was a real and symbolic victory for the movement: it gave impetus to and had a demonstration effect on organizing efforts around the world to engage in constitutional engineering. Activists in Colombia, Ecuador, El Salvador, Ghana, Nigeria, and Mexico began to organize around the constitutional protection of water, galvanized by the Uruguayan victory. In Colombia, for example, the National Committee in Defense of Water and Life delivered over two million signatures in September 2008 to the National Registrar of Elections in support of a constitutional referendum. The referendum sought to make water a fundamental human right; require the Colombian government to guarantee a free basic minimum to its citizens; require that water services be administered only by the State and/or with community participation; and require that the State protect water basins. The Colombian campaign, headed up by the environmental NGO Ecofondo

³⁷⁹ World Bank, Project Appraisal Document (PAD), Second Phase of the OSE Modernization and Systems Rehabilitation Project, May 31, 2007. http://www-wds.worldbank.org/external/default/WDSPContentServer/WDSP/IB/2007/06/12/000020953_20070612144947/Rendered/PDF/39864.pdf (December 9, 2007).

with the participation of over sixty other organizations, was strongly supported by CNDAV and modeled after the Uruguayan constitutional reform. CNDAV leaders Alberto Villareal (Friends of the Earth-Uruguay) and Adriana Marquisio (Vice-President of the water workers' union) sailed down the Amazon River in November and December 2007 with Colombian and other Latin American activists to promote the referendum. However, the referendum was significantly weakened by the lower chamber of the Colombian Congress in May 2010, and CSOs withdrew their support.³⁸⁰

The Uruguayan campaign victory on October 31 was further memorialized in the water justice TANS' designation of that month as "Blue October," an international "month of action to challenge corporate control of water and to protect water as a shared natural resource available to all." Blue October was launched at the alternative activist forum (IFDW) during the fourth WWF in March 2006. It functioned as a political space to coordinate commemorative activities for three years, but has waned since 2009. CNDAV members have continued to play a prominent role in the international water movement, especially in Latin America, through La Red VIDA. The water utility union's vice-president, Adriana Marquisio, delivered the opening remarks at the August 2008 Red VIDA gathering in Cochabamba, which had representation from about 50 civil society organizations. The 2008 Declaration of Cochabamba committed to continued support, in Latin America and around the world, for "constitutional, legislative and institutional reforms that promote the reversal of privatization and commodification of water." Organizers of the

³⁸⁰ Martinez, Helda. May 20, 2010. "Initiative for Water as a Human Right Sinking in Congress." Inter Press Service, Bogota, Colombia. <http://ipsnews.net/news.asp?idnews=51523> (January 11, 2011)

Uruguayan referendum have said that the success of their initiative has had a greater impact internationally than nationally.³⁸¹ But they add that constitutional engineering was never meant to be a “silver bullet;” mobilization was a means to encourage citizen participation and hold governments accountable.

Methodologically, the Uruguay case study has intrinsic value because it is a unique example of a successful water activist campaign centered around a strategy of constitutional engineering. The particularities of Uruguay as a small, educated, upper middle-income developing country favored social and political mobilization, rendering it an atypical or “extreme” case. In this respect it is a weak test for generalizing the effects of activist mobilization on agenda change in the Bank. But as an extreme case, it is a strong test of what we can learn about the behavior and influence of TANs and activist domestic coalitions under optimal conditions for political mobilization, and through a successful campaign which had a strong demonstration effect on the water justice movement. The case has instrumental value for understanding the challenges facing water justice activists after a successful campaign. It is likewise a strong test of the Bank’s *ex post* reaction to a blanket prohibition on PSP in a country where it had been pushing this strategy through loan conditionalities.

This chapter is divided into three parts. Part One (sections 6.2 through 6.4) discusses the precipitants of the CR campaign, its development and protagonists, and the trajectory of the campaign up to the October 2004 victory. Section 6.2 focuses on the underpinnings of the CR strategy in Uruguayans’ increasingly frequent

³⁸¹ Bart Beeson, “New Wave of Water Movements in Latin America,” *NACLA Online News*, March 31, 2008. <http://nacla.org/node/4560> (April 8, 2008)

deployment of direct democracy mechanisms to engineer social change. Section 6.3 briefly discusses the introduction of PSP into the WSS sector in the late 1990s and early 2000s, and the coalescence of a cross-section of CSOs into the formation of the CNDAV. Section 6.4 analyzes the characteristics of the domestic CNDAV coalition, transnational support, and the strategic development of the campaign between 2002 and 2004. Part Two (section 6.5) returns to the discussion of neoliberal policies in WSS provision between 1992-2004, closely analyzing key World Bank and IDB loan documents, including structural adjustment loans made during the severe economic downturn of 2002-2003. The analysis exposes contradictions in the Bank's evaluation of OSE's performance and the rationale for pushing PSP loan conditionality. Part Three (sections 6.6 and 6.7) examines developments in the post-CR period between 2005 and 2009. Section 6.6.1 looks at fissures on the left, first between CNDAV and the new FA-EP government, and then within CNDAV over how to realize the social goals in the CR, and whether to do so by "participation from above or below." Section 6.6.2 looks at the World Bank's and IDB's reactions to operating in the new WSS sector environment where PSP is now prohibited. I conduct a close analysis of Bank documents which again reveal a number of startling contradictions and "truth-stretching" in the Bank's hindsight evaluation of its WSS lending policies, and inadequacies in the Bank's technical assessments. The Uruguay case confirms the tensions laid out in the internal descriptive model of the Bank that I presented in Chapter Four. Pro-PSP ideology and loan conditions prior to the CR are shown to be at odds with the relatively good performance of OSE as a public sector utility; after the CR, the Bank continues to lend very willingly to the sector.

Moreover, the strongest impetus for reforming regulation comes from the new left-wing government on its own initiative; neither from previous neoliberal governments, nor from Bank-imposed conditions (though the Bank falsely attempts to take credit). Section 6.7 concludes by looking at the unresolved tensions between CNDAV's goals as a domestic actor and its celebrity status in the international water justice movement.

Box 1

An Overview of Water Resources and Service Provision In Uruguay

- Along with neighboring countries, Uruguay has one of the largest reserves of fresh water in the world: almost half of its 187,000 square kilometer area is situated above usable aquifer sources. The largest, the Guaraní aquifer, is one of the biggest subterranean freshwater reservoirs in the world; it occupies 58,000 square kilometers of Uruguayan territory, and extends into Argentina, Brazil, and Paraguay.³⁸²
- The World Bank characterizes Uruguay as “an upper-middle income country characterized by a high coverage and quality of public services and infrastructure relative to other Latin American or middle income countries...the provision of potable water is practically universal in the entire country, as is the provision of adequate sanitation services.” However, Uruguay’s sanitation coverage level drops to 56.5 percent when coverage is measured as the percentage of the population with household connections to the sewerage network, and to 27.4 percent when measurement is restricted to the population in the urban interior served by OSE, the national water and sewerage utility.³⁸³

OSE provides water and sanitation services for the entire country, except for Montevideo, where sanitation services are provided by the municipality. OSE was a private British-owned utility until 1952 when it became a public enterprise through the 1952 Sector Law (No. 11.907). It was one of the first Latin American utilities to introduce wastewater treatment not only to the capital city, but also to regional capitals.³⁸⁴ OSE reports to the Ministry of Housing, Land Management and Environment (MVOTMA), which submits OSE’s proposed budgets to the Executive’s Office of Planning and Budget (*Oficina de Planeamiento y Presupuesto*, OPP). OPP in turn clears the proposals before the President approves them on behalf of the national government.³⁸⁵ As noted elsewhere in this chapter, OSE has typically been self-sustaining, but unlike other Uruguayan state-owned enterprises has not been a net contributor to the state treasury.

³⁸² Rabuffetti, Mauricio. 2006. “When Water Becomes a Political Challenge: Uruguay Moves for a Constitutional Amendment Declaring Water to Be a Public Right,” Women’s International Peace and Freedom League, (original from portal.unesco.org). http://www.wilpf.org/water_political_challenge (December 9, 2007).

³⁸³ World Bank 2007. Project Appraisal Document (PAD), *Second Phase of the OSE Modernization and Systems Rehabilitation Project*, May 31, 2007. http://www-wds.worldbank.org/external/default/WDSPContentServer/WDSP/IB/2007/06/12/000020953_20070612144947/Rendered/PDF/39864.pdf (December 9, 2007). Adequate sanitation services here refers to access to some type of improved sanitation facility, including connection to septic systems and simple or improved pit latrines.

³⁸⁴ World Bank 2000. Project Appraisal Document (PAD), *OSE Modernization and Systems Rehabilitation Project*, May 1, 2000, 25.

³⁸⁵ World Bank PAD, May 2007; FFOSE El Agua es Vida, 2002.

PART ONE

6.2. Statism and Direct Democracy Mechanisms: Historical Factors Underpinning the Constitutional Reform Campaign

The origins and success of the CR campaign, as a specific strategy to prohibit the private provision of WSS in Uruguay, are rooted in a number of historical factors. The template for the campaign's success was forged by a pluralistic political system with strong party competition and civic participation, strong support for state institutions and state-owned enterprises (SOEs), and the ability to constitutionally engineer social and political change through two mechanisms of direct democracy, referendums and plebiscites. Referendums and plebiscites have played an important role in effecting social and political change, as I discuss below.

With the exception of the period 1973-85 under military dictatorship, Uruguay has been the most enduring democracy in Latin America, with the continent's oldest multiparty political system.³⁸⁶ Until the breakdown of democracy in 1968 and the subsequent military coup d'état, Uruguay had enjoyed the moniker of the "Switzerland of South America" due to historically high levels of economic development, sophisticated representative institutions, and a comprehensive welfare state.³⁸⁷ Its electoral and party system, modeled early in the twentieth century after the Swiss collegial executive system, has nurtured pluralism and a highly-participatory democracy through, among other features, electoral rules which have

³⁸⁶ Uruguay achieved independence in 1828 and had its first constitution in 1830. As noted below, the party system was bipartisan until the growth of a leftist opposition in the 1960s and with Frente Amplio's entry in the 1971 elections.

³⁸⁷ Council on Hemispheric Affairs. May 2005, 3; Weinstein 1988, Chapter 3.

institutionalized stable party factions (under the *Ley de Lemas*).³⁸⁸ Uruguay's political party system was effectively bipartisan for the first two-thirds of the twentieth century, dominated by the two traditional parties, the Partido Colorado and Partido Nacional (or Blancos).³⁸⁹ The onset of stagflation in the late 1950s and the 1960s and the exhaustion of the import-substituting industrialization model led to the weakening of the traditional parties and the growth of a left-wing opposition, the Frente Amplio (Broad Front, FA). Although the Frente Amplio was outlawed during the dictatorship, it grew substantially in the years after the return to civilian rule in 1985. The FA garnered the largest share of the popular vote in the 1999 general elections (40 percent), winning the most seats in the General Assembly. Tabaré Vazquez, the FA candidate who won the presidency in 2004, would have won in 1999 were it not for a 1996 constitutional amendment which instituted a run-off system for the presidential election. This amendment had the desired outcome of changing

³⁸⁸ The *Ley de Lemas* is the Spanish name for the double simultaneous voting system, which tallies votes for political parties or coalitions (*lemas*) on the basis of votes cast for lists of candidates submitted by party fractions (*sublemas*). This system allows many candidates for the legislative branch to run within the same party, allows a voter to cast her vote according to ideological preference or in accordance with a *sublema's* platform, and is intended to make intra-party alliances more transparent. Four features characterized the Uruguayan electoral system between 1942-1994: the double-simultaneous voting system, wherein a political party and one of its lists (put forth by party fractions) are voted simultaneously, election of the Executive through plural voting; election of the legislative chambers through proportional representation and concurrent elections for the Executive and Legislature. New electoral rules which came into force in 1999 modified three of these four features, including replacing the plurality system for the election of President with a two-ballot majority system, which requires a run-off election in the event no party receives a majority in the first-round of voting. This reform was an attempt by the Colorados and Blancos to head off a victory by the burgeoning Frente Amplio. The multiple-simultaneous voting system was also changed, so that now each party could only run one presidential candidate across all of its fractions, or *sublemas*. Bergara et al. 2004, 49-50; de Brito 1997, 35; Weinstein 1988.

³⁸⁹ The Colorados (reds) and Blancos (whites), were so named for the headbands they wore as warring factions in the decades following independence. The Colorados were traditionally associated with liberalism, secularism and urban business and worker interests, in line with the legacy of their renowned leader, José Battle y Ordóñez who built the foundations of the modern welfare state in the early 20th century. The Blancos were historically conservative, defending the interests of landowners and the Catholic Church. The distinctions between the parties blurred in later decades of the twentieth century. Weinstein 1988.

electoral rules to the benefit of the traditional parties.³⁹⁰ Today, the FA comprises a broad spectrum of political fractions (*sub-lemas*)³⁹¹ from the center to the left, and as a coalition, represents the social-democratic policy space in Uruguayan society.

Uruguay was one of the earliest welfare states in Latin America, developed during the first three decades of the twentieth century through the programs initiated by Colorado Party leader President José Battle y Ordóñez.³⁹² Battle promoted social welfare legislation that consolidated his support among the urban, immigrant working class, but the centerpiece of his ideology, “Battlismo,” was the creation of *entes autónomos*, state enterprises, to provide essential services, or to own and operate key commercial or industrial sectors.³⁹³ Reforms introduced in the 1960s reduced clientelism and patronage in these SOEs and Uruguayans have consistently supported the maintenance and operation of essential service utilities in the public sector. The provision of utility services by public enterprises is enshrined in the Constitution; management of SOEs is somewhat independent, though the President has the power to appoint Board members and approve tariffs in the monopoly segments.³⁹⁴

One of Uruguay’s leading historians, Benjamín Nahum, notes that the overwhelming majority of Uruguayans, without distinction of political party, see state institutions as serving a social function, first and foremost.³⁹⁵ In a poll conducted in the year 2000, roughly 80 percent of Uruguayans expressed the view that the State

³⁹⁰ Frente Amplio won the plurality of votes—40 percent of the popular vote in a four-party race—in the 1999 elections, thus constituting the largest legislative bloc. U.S. Department of State 2002. Human Rights Report and Background Note: Uruguay, October 2006.

³⁹¹ Several scholars of Uruguay’s political system prefer the term “fraction,” to faction, as the *sublemas* are institutionalized political groupings. Altman 2002, 620; Juan Pablo Luna 2007.

³⁹² Weinstein 1988, 23.

³⁹³ Weinstein 1988, 23-24.

³⁹⁴ Bergara et al. 2004.

³⁹⁵ Nahum 2002, 385.

should control most public companies, an opinion shared by 90 percent of those who identified themselves as left-wing, 82 percent of centrists, and 71 percent who considered themselves as on the right-wing side of the political spectrum.³⁹⁶ The public's endorsement of a free market economy was the lowest in Latin America in a survey taken in 2003, even though Uruguay ranked high on various measures of economic openness and governance.³⁹⁷ Only Argentina had a more negative view of privatization.³⁹⁸ Mario Bergara, whom I interviewed and who currently serves as President of the Central Bank of Uruguay,³⁹⁹ has written that the lack of political consensus for privatization has been a function of the fact that many public sector monopolies, especially in electricity, telecommunications and petroleum refining, have historically run surpluses which contributed to the state Treasury and helped to promote efficiency improvements.⁴⁰⁰ The water and sanitation utility, OSE, is an exception, though it has still generally operated at the break-even point.⁴⁰¹

In addition to strong public support for maintaining network utilities under state ownership and control, Uruguayans have had at their disposal two constitutional devices for engineering political and social change: referendums and plebiscites. Bergara et. al. maintain that these two mechanisms of direct democracy “are the key institutional ingredients for understanding the moderation of liberal reforms in

³⁹⁶ Bergara et al. 2004, 4.

³⁹⁷ Global Competitiveness Report, 2003. Cited in Bergara et al., 3-8.

³⁹⁸ Global Competitiveness Report, 2003. Cited in Bergara et al., 3-8.

³⁹⁹ Bergara was vice-minister of Economy and Finance from 2005-2008.

⁴⁰⁰ Bergara et al. 2004, 12. During the mid to late 1990s, the electricity and in part, telecommunications monopolies were opened up to moderate market-oriented reforms, though implementation has been uneven. The authors do not indicate that liberalization in these sectors altered revenue flows to the Treasury.

⁴⁰¹ Interview with Marcel Achkar and Ana Dominguez, October 29, 2004.

Uruguay from 1990 onwards.”⁴⁰² Both plebiscites and referendums have been in use in Uruguay for most of the twentieth century, though their use and purpose has changed in frequency and in substance with changes in the country’s legal and governance structure. Although the terms “plebiscite” and “referendum” were used interchangeably for over the first half of the twentieth century, since 1967 referendums have been constitutionally defined as mechanisms to repeal existing laws.⁴⁰³ The signatures of 25 percent of registered voters must be collected within a year of the law’s passage to be put on the ballot as a referendum. Plebiscites, in contrast, are a legal means of directly amending the Constitution, require the signatures of at least ten percent of registered voters to be placed on the ballot, and can only be put to a vote at the same time as Presidential elections, once every five years. These two constitutional devices act as veto mechanisms on Uruguay’s strong executive branch, obliging presidents to be cautious about legislation that can be subsequently overturned by disaffected groups which could mobilize popular initiatives.⁴⁰⁴

Lissidini delineates three epochs in Uruguayan political history associated with the differential use of these mechanisms of direct democracy.⁴⁰⁵ In the first epoch, 1917-1971, the two dominant political parties, the Colorados and Blancos, originated legislative initiatives to create majorities based on prior inter-party or inter-factional accords, with the goal of displacing some other political faction. These referendums did not arise from popular initiatives, and although were viewed as a

⁴⁰² Bergara et al. 2004, 35.

⁴⁰³ Constitution of the Republic of Uruguay, Article 79. Laws dealing with taxes or where the Executive has exclusive powers cannot be repealed under referendums.

⁴⁰⁴ Bergara et al. 2004, 35.

⁴⁰⁵ Lissidini, in Mallo and Serna 2001.

legitimate means of resolving crises in the political sphere, were frequently more autocratic than democratic, and had the effect of consolidating the stronghold of the two dominant parties.⁴⁰⁶ The second phase Lissidini cites is under the military dictatorship. In November 1980, the armed forces submitted to a plebiscite its project to reform the constitution, with the goal of return to “limited democracy.” The proposed new constitution would have continued to authorize the armed forces to take “all measures needed for national security,” legalized military control over the two traditional parties, outlawed the leftist parties, given the armed forces veto power over all future government action, and effectively ratified all the illegal acts of the *de facto* regime.⁴⁰⁷ The military expected to win the plebiscite: it was instead rejected by a 57 to 43 percent margin, with a 64 to 36 percent margin in Montevideo. This mistaken strategy of resorting to a plebiscite “was the beginning of the end for the military” and opened the road toward re-democratization in Uruguay. A wave of detentions followed the constitutional plebiscite, and most of the disappearances that occurred under Uruguay’s military regime occurred in this period.⁴⁰⁸ A further indication of the regime’s humiliation was the 1981 ban on the word “plebiscite” or any reference to that event.⁴⁰⁹

The third phase in the use of referendums and plebiscites began in 1989 and has continued up to the present time. Four years after the return to civilian government in 1985 the Uruguayan people put to the ballot a referendum to repeal the

⁴⁰⁶ Lissidini 2001, 1-7.

⁴⁰⁷ Weinstein 1988, 74-75; Lissidini 2001, 8-9.

⁴⁰⁸ de Brito 1997, 48.

⁴⁰⁹ Weinstein 1988, 72.

controversial and divisive law, the *Ley de Caducidad*,⁴¹⁰ which granted amnesty to military officers accused of human rights violations. After an intense campaign accompanied by threats and intimidation by the military and “dirty tricks” by the Electoral Court (which was accused of invalidating legitimate signatures), the referendum to repeal the amnesty law was defeated, with 44 percent voting in favor of repeal.⁴¹¹ Nevertheless, the referendum on the amnesty law was a turning point in the use of direct democracy mechanisms in Uruguay. It ushered in a new era where direct democracy mechanisms would be employed frequently by civil society groups for explicitly contestational or oppositional purposes. Since 1989, referendums and plebiscites have been used once a year in Uruguay compared to only 17 instances during 1917-80.⁴¹² They have become critical tools in the arsenal of activists, organized interest groups, and opposition parties to repeal legislation, block economic reforms, and/or promote political goals. The use of direct democracy mechanisms has been the primary vehicle for opposing privatization of SOEs and the neoliberal reforms introduced in the 1990s.

Blocking Privatization through Referendums: 1992

In December 1992, a successful referendum backed by Frente Amplio, fractions of both the Colorados and Blancos, and the national trade union federation (PIT-CNT), partially repealed the *Ley de Empresas Publicas*, the Public Enterprises

⁴¹⁰ *Ley de Caducidad de la Pretensión Punitiva del Estado*, roughly translated as Law for the Annulment of the State’s Punitive Capacity. This law was passed in December 1986 after bitter debate in both houses of parliament, fistfights between legislators, and violent street demonstrations. In February 1987, a campaign was launched to gather the requisite 520,000 signatures (25 percent of registered voters) to put the referendum on the ballot.

⁴¹¹ Lissidini 2001, 13.

⁴¹² Valdomir 2002.

Law.⁴¹³ The Public Enterprises Law would have permitted the executive branch, without legislative approval, to privatize or “demonopolize” any public enterprise or service, and opened the door to the partial sale of the surplus-generating telecommunications utility (ANTEL) and to some commercial associations for the electrical energy utility (UTE).⁴¹⁴ The law also contemplated the full sale or closure of the national airline, PLUMA, and the state-owned fur seal and fisheries enterprise. The law was passed under the National Party (*Partido Nacional*, PN) presidency of Luis Alberto Lacalle, who was committed to a vision of economic restructuring which included an emphasis on the roles of the private sector and the market, and reform of the public sector through demonopolization and privatization.⁴¹⁵ Lacalle assumed the presidency in 1990 with real GDP per capita roughly stagnant for the prior five years, inflation approaching 130 percent, and a fiscal deficit over 3.0 percent of GDP, the highest it had been in five years.⁴¹⁶ In an example of Peter Gourevitch’s “second image reversed,” political scientist James Vreeland argues that Lacalle actively sought an IMF Stand-by credit in 1990 to impose conditionalities that would reduce the fiscal deficit and the size of the public sector—policies that Lacalle’s administration could not alone impose, given their unpopularity with

⁴¹³ Articles 1, 2, 3, 10 and 31 of the Public Enterprises Law (Ley No. 16.211) were repealed with 71.6 percent of the popular vote.

⁴¹⁴ Bergara et al. note that the union of ANTEL employees initiated the referendum, while Lissidini suggests that the move to preempt parliamentary consideration generated broad-based and multiparty support. Bergara et.al. 2004, 57. Lissidini 2001, 11.

⁴¹⁵ Jennifer McCoy, with Jeff Davis and Paul Foote, “Reluctant Reformers: Explaining Privatization in Venezuela and Uruguay,” Department of Political Science, Georgia State University. Draft copy, Prepared for presentation at the Congress of the Latin American Studies Association, Chicago, 1998. <http://lasa.international.pitt.edu/LASA98/McCoy-Davis-Foote.pdf> (January 13, 2009).

⁴¹⁶ World Resources Institute, *Earth Trends*, Country Profiles: Uruguay, 2003. http://earthtrends.wri.org/pdf_library/country_profiles/eco_cou_858.pdf (January 15, 2009); U.S. Department of State February 1994. “Uruguay: Economic Policy And Trade Practices.” http://dosfan.lib.uic.edu/ERC/economics/trade_reports/1993/Uruguay.html (January 15, 2009).

fractions of all three political parties. (Though Lacalle's National Party won 37 percent of the vote, he and his political "fraction," *Herrerismo*, won only 22 percent of the vote, only one percent higher than Frente Amplio, which won populous Montevideo and took control of its local government).⁴¹⁷ To bolster his economic reform program and counteract the lack of domestic support, Lacalle went so far as to announce that his administration had signed a letter of intent (LOI) for a \$150 million Stand-by Arrangement six months before the LOI was actually signed. When the Stand-by Arrangement went into effect in December 1990, the IMF made no mention of Uruguay's foreign reserve position (because, as Vreeland points out, it was "conspicuously strong"). It instead attributed Uruguay's economic problems to a rising budget deficit, and called for linking public-sector wages to the projected decline in inflation and deregulating and privatizing public enterprises.⁴¹⁸

Despite Lacalle's strategic engagement of IMF support through loan conditionalities, the President was dealt a severe setback when 72 percent of the population voted by referendum for a partial repeal of the Public Enterprises Law. Lissidini states that the idea for repealing the Public Enterprises law germinated even before it passed. She attributes this to the demonstration effect of the two 1989 referendums which emboldened organized social and political groups to challenge the results of representative democracy with the tools of direct democracy. Public sector employees constituted almost one-fourth of the employed workforce, and the downsizing of the State threatened a loss of patronage and political influence for both

⁴¹⁷ James Vreeland 2003. "Why Do Governments and the IMF Enter into Agreements? Statistically Selected Cases," *International Political Science Review* 24 (3), 321–343.

⁴¹⁸ Vreeland 2003.

the Colorados and Blancos.⁴¹⁹ Argentina's negative experience with privatization of its state-owned telecommunications enterprise, ENTEL (during which rates went up and service declined), made Uruguayans even more leery of opening up their generally well-regarded SOEs to market forces.⁴²⁰ It should be noted, however, that the Public Enterprises Law was only partially repealed because a full repeal did not have the support of even the Frente Amplio. There were two ballots associated with the referendum: the "white ballot" (*papeleta blanca*) called for repealing those articles of the law which would have permitted the sale of private shares in ANTEL; this won overwhelmingly, with 72 percent of the vote. However, the *papeleta rosada* or "pink ballot," which would have also prohibited the sale of the state-owned airline PLUNA and the state-owned seal and fishing enterprise, ILPE, lost. Though supported by the respective unions of these SOEs and the left-wing faction of Frente Amplio, the majority of the party recognized that PLUNA and ILPE were not economically viable, and did not close ranks to support the pink ballot.⁴²¹

In the decade following the successful rollback of the Public Enterprises Law and prior to the 2004 water plebiscite, there were several more popular initiatives introduced to defeat proposed liberalizations of state-owned enterprises. The 1998 initiative to oppose deregulation of the electricity SOE, UTE, failed to collect the required signatures (25 percent) for a referendum.⁴²² In another instance, the Uruguayan Parliament preemptively repealed a law to partially privatize the state-

⁴¹⁹ Lissidini 2001, 11.

⁴²⁰ L. Luxner, "Uruguay Voters Kill Privatization," *Telephony*, January 4, 1993.

⁴²¹ Raul Legnani. January 18, 2007. "Plebiscito de 1992: el FA no cerró filas por Pluna estatal." *La Republica* online. <http://www.larepublica.com.uy/larepublica/2007/01/18/politica/241953/plebiscito-de-1992-el-fa-no-cerro-filas-por-pluna-estatal/> (November 20, 2007).

⁴²² Bergara et al. 2004, 19.

owned mobile telephone company, anticipating that a referendum drive was imminent and would have succeeded. In December 2003, over 62 percent of Uruguayans voted to approve a referendum to block a law which would have allowed the state-run fuel company, ANCAP, to associate with private firms.⁴²³ Unlike in the subsequent case of water privatization, the Frente Amplio party played a pivotal role throughout, along with ANCAP's trade union, in supporting the referendum campaign to repeal the privatization of ANCAP.⁴²⁴

In summary, mechanisms of direct democracy such as referendums and plebiscites were a key tool in preventing the "retreat of the state" in strategic areas. Even advocates of market reforms in the liberalization of Uruguayan public monopolies have conceded that these tools have been a transparent form of veto mechanism in the policymaking arena.⁴²⁵ However, in contrast to the telecommunications, electricity, and fuel sectors, where referendums sought to overturn existing laws, the plebiscite campaign against water privatization caught analysts and proponents of market reforms off-guard.⁴²⁶ The WSS concessions to private operators in Uruguay were localized and had been awarded through administrative channels which did not require legal approval (hence there were no specific sectoral laws to overturn via a referendum campaign). Moreover, a complete privatization of the state-owned utility, OSE, had never been on the agenda for political reasons. Yet in spite of the different circumstances affecting OSE and

⁴²³ ANCAP is the National Administration of Fuels, Alcohol and Portland (cement). Resource Center of the Americas, "Oil Privatization Voted Down," http://www.americas.org/item_8637 (November 26, 2004).

⁴²⁴ Bergara et al. 2004, 58.

⁴²⁵ Bergara, et al. 2004.

⁴²⁶ Bergara et al. 2004, 58-61.

predictions to the contrary, it became the center of a plebiscite campaign which galvanized more attention than any of the prior anti-privatization campaigns and an international symbol of success in beating back the privatization of public services.

6.3. From Concessions to the Constitution: Prelude to the CNDAV

The first private concession of public water provision in Uruguay began “paradoxically”-- as leading chroniclers of the anti-privatization campaign put it-- two days prior to the 1992 referendum against privatization of public enterprises.⁴²⁷ Recognizing that public sentiment was heavily against privatization, on December 11, 1992 the Directors of OSE granted a 15 year concession to a private company, Aguas de la Costa, to supply WSS to 3000 households in the eastern part of the Department of Maldonado. Maldonado is the wealthiest Department in Uruguay, famous for its luxurious beach resorts in Punta del Este.⁴²⁸ The concession was awarded through administrative channels, and did not require legal approval at the time of award.⁴²⁹ One year later, the General Assembly ratified the concession.⁴³⁰ In December 1997, the French multinational water company, then Suez Lyonnaise des Eaux, bought up 60 percent of the shares of Aguas de la Costa through its ownership share in the Spanish company, Aguas de Barcelona.

In 1996 both the Government of Uruguay (GOU) and the World Bank began stepping up activities to increase private sector participation in the provision of WSS.

⁴²⁷ Santos and Valdomir 2006.

⁴²⁸ The concession area at that point in time did not include the destination beach resorts such as Punta del Este and Piriapolis which were concessioned in 2000 to a different provider.

⁴²⁹ Bergara et al. 2004, 58.

⁴³⁰ Law No. 16.361. Only a single deputy, Helios Sarthou of Frente Amplio, voted against allowing the concession to stand. *El Correo de la Diaspora Argentine*, July 30, 2004. http://www.elcorreo.eu.org/esp/article.php3?id_article=3916 (December 6, 2007).

In January of that year, President Sanguinetti (of the Colorado Party) submitted a budget to the General Assembly authorizing OSE, with prior approval of the Executive, to grant concessions for WSS in the interior of the country.⁴³¹ The World Bank began, in its own words, to “expand its dialogue” on public service reform, sending a mission from its Infrastructure Department to Uruguay in September 1996. In June 1997 the Bank published a sector report, *Uruguay: Towards a New Role for the State in Uruguay’s Utilities*, which stated that its main purpose was to maximize public-private joint ventures in the utilities sector.⁴³² The report acknowledged that OSE’s service coverage and quality, especially for water, were high in comparison to regional indicators, but it cited a number of problems. Among these were: poor labor productivity and restricted flexibility in staffing and contracting; inadequate separation between (self-) regulation, operations, and policy; and the conflict between OSE’s dual roles as public provider and grantor of private concessions.⁴³³ The report noted that OSE recognized these problems and had committed to addressing them through increasing private participation via concessions and outsourcing, and by decentralizing operations.

During this same year, and probably stemming from knowledge of OSE’s commitment to the Bank to accelerate privatization activities, members of the water utility’s trade union, the *Federación Functionarios de las Obras Sanitarias del Estado* (FFOSE), joined with neighborhood organizations in the Department of

⁴³¹ Ley No. 16736, January 5, 1996. FFOSE 2002, 19.

⁴³² The World Bank. June 16, 1997. *Uruguay: Towards a New Role for the State in Uruguay’s Utilities*, Infrastructure Division, Country Department I, Latin America and the Caribbean Region, Report No. 16154-UY.

⁴³³ World Bank. June 1997, 4-5.

Canelones⁴³⁴ to address problems in WSS provision. Residents of Ciudad de la Costa, a coastal area of Canelones which was experiencing rapid population growth that outpaced the expansion of WSS, joined with local FFOSE members in a pilot project to organize a cooperative to install water supply facilities with OSE's help.⁴³⁵ Several years later this community-trade union alliance would form the basis of the *Comisión de Defensa del Agua de Ciudad de la Costa y Pando*, a diverse local coalition that would germinate in the creation of the CNDAV. One of the founders of this organization, Octavio Silvera, made a point of telling me that the impetus for forming the CNDAV came from this local neighborhood association, and was not instigated by the FFOSE trade union.⁴³⁶

Between 1997 and 2000, the World Bank continued its analytical and advisory work on reform of the water sector, culminating in a major loan to OSE in June 2000 to expand and upgrade WSS. This was accompanied by a smaller technical assistance loan to the Government's Office of Planning and Budget.⁴³⁷ The *OSE Modernization and Systems Rehabilitation Project* (OSE MSRP) was structured as a ten-year, \$100 million adaptable program loan (APL),⁴³⁸ with four phases and

⁴³⁴ After Montevideo, Canelones has the second-largest population in the country; it grew 22 percent between the censuses of 1985 and 1996. Source: Instituto Nacional de Estadísticas, Gobierno de Uruguay. http://www.ine.gub.uy/banco percent20de percent20datos/soc_pobhogyviv/Censos_T4.xls (December 7, 2007).

⁴³⁵ Santos and Iglesias 2006.

⁴³⁶ Interview with Octavio Silvera, Montevideo, Uruguay, October 19, 2004.

⁴³⁷ IBRD 2000. Project Appraisal Document, *OSE Modernization and Systems Rehabilitation Project*, Report No.: 20343-UR. May 1. http://web.worldbank.org/external/projects/main?menuPK=51447259&pagePK=51351007&piPK=64675967&theSitePK=40941&menuPK=64187510&searchMenuPK=51351213&theSitePK=40941&entit yID=000094946_00052705302843&searchMenuPK=51351213&theSitePK=40941 (December 14, 2005).

⁴³⁸ Adaptable Program Loans are a type of investment (as opposed to adjustment) lending instrument used by the World Bank Group. The "programmatic" component refers to the loan's structure, which incorporates "a series of operations that are sequentially related over time...normally linked to the country's annual policy and budget cycle... with clear triggers/benchmarks for moving from one

disbursement tranches. Phase 1 of the APL, which was projected to be implemented between July 2000 and July 2004, committed the Bank to disburse \$27 million in a loan to OSE, with OSE contributing \$21 million. The Bank describes the program loan as “designed to foster gradual reform and increase private sector participation” over its life, “in line with the Government’s vision...in which a more efficient and effective public utility (OSE) provides services alongside private providers.” This was consistent with the sector goals laid out in the Bank’s Country Assistance Strategy (CAS).⁴³⁹ Key “performance indicators” listed for the program included:

- increased efficiency and effectiveness, in part through reduction of OSE employees per thousand connections (from 5.6 in 1999 to 4.4 in 2008)
- separation of operations from regulatory and control functions, including a system of internal benchmarking and moves toward decentralization, accompanied by the GOU’s explicit commitment to planning for an independent and transparent regulatory body, and
- an increase in private sector participation (PSP), with a goal of 67,000 households reached by private operators by 2009.⁴⁴⁰

With respect to PSP, the Bank highlighted that WSS in the Department of Maldonado was about to be transferred to a private concessionaire, the Basque multinational corporation, Aguas de Bilbao. In January 2000, Aguas de Bilbao bid \$150 million and was awarded a thirty year concession to supply water to Maldonado’s 260,000

operation in the series to the next.” See: “World Bank Programmatic Lending: Some Questions and Answers.” http://www.worldbank.org/urban/forum2002/docs/programmatic_qa.pdf (January 2, 2009).

⁴³⁹ World Bank 2000, 3 and 33.

⁴⁴⁰ World Bank 2000, 3-8, 25, 33.

inhabitants.⁴⁴¹ Aguas de Bilbao began operating under the name URAGUA in October of that year.

The project appraisal document (PAD) for this program loan reveals that the Bank recognized in May 2000 that “sector-wide privatization is not a strategy supported by the GOU, and is considered unfeasible given the existence of important political and legal constraints, including the powerful opposition of organized labor.” Seven years later, in the September 2007 Implementation and Completion Results Report (ICR) for this project, the Bank acknowledges that “PSP in the water and sanitation sector notoriously failed to gain backing from politicians and the general public,” but exonerates itself by stating that it correctly identified this risk as significant at the time of project design.⁴⁴² (See Part Two of this chapter for further discussion). Quite revealingly, and with the benefit of hindsight, the Bank retrospectively acknowledges in the ICR that the project approval stage was:

deliberately and effectively timed with a new presidential election [in 1999] in a bid to secure greater commitment to the project. The design team was fully aware that Presidential elections would be held at a critical time within the APL-1 preparation cycle. Since the incumbent party was expected to win, it was felt that the timing would enable the new administration to have a full run of project implementation. Although the incumbent party was indeed reelected, the weakness of the new governing coalition led to congressional delays in appointing a new OSE Board.⁴⁴³

By the time the Bank approved the OSE Modernization Loan in June 2000 the opposition train was building up a head of steam and preparing to leave the station. The Maldonado concession no doubt provided the impetus for the water utility workers’ trade union, FFOSE, to step up organizing around what it now perceived as

⁴⁴¹ A consortium composed of Aguas de Bilbao, Iberdrola and the bank BBK made the bid. PSIRU Company Profile-Aguas de Bilbao, personal copy.

⁴⁴² World Bank. September 2007.

⁴⁴³ World Bank. September 2007, 8-9.

complicity between the GOU and the World Bank to extend privatization to other Departments in the country. On October 19, 2000, local FFOSE members and neighborhood allies in the rapidly growing city of Costa de Oro y Pando in Canelones convened a plenary of regional social organizations to form the Comisión de Defensa de Agua y Saneamiento de Costa de Oro y Pando (CDASCOP). CDASCOP would become the forerunner and nucleus of the CNDAV, coming to comprise about 40 organizations in the following two years.⁴⁴⁴ FFOSE claimed that the instigation for the organization of CDASCOP was the Government's announcement that it intended to privatize WSS services in the cities of Ciudad de la Costa (Canelones Department), San José, and Colonia.⁴⁴⁵ Though there is no mention of these cities as concession candidates in the World Bank's OSE Modernization and Systems Rehabilitation loan, that loan did establish that two more concession contracts would be required of the GOU for the second and third tranches to be disbursed.

In January 2001, members of CDASCOP and Friends of the Earth-Uruguay (Red de Ecología Social-Amigos de la Tierra/ REDES-AT) participated in the first World Social Forum in Porto Alegre, Brazil. Adriana Marquisio, the President of FFOSE and one of the founders of CDASCOP and later the CNDAV, described her attendance at the WSF as a milestone in her life. She claims the Forum was instrumental in educating her about the issue of water privatization on a global scale, the role of multinational corporations, and the link to the FTAA and the WTO; she brought this information back to Uruguay, and at the next union Congress, FFOSE set

⁴⁴⁴ Santos and Iglesias, 2006; Rel-UITA interview with Adriana Marquisio, November 2004.

⁴⁴⁵ FFOSE 2002.

up a Secretariat in Defense of Water.⁴⁴⁶ In October 2001, CDASCOP put forth an alternative proposal for sanitation in Ciudad de la Costa y Pando, and joined with FFOSE and other neighborhood organizations in the Departments of Colonia and Maldonado to oppose further privatization.

During 2001 and 2002, FFOSE and CDASCOP were aided in their efforts to foment public opposition to WSS privatization by several major mishaps that occurred under URAGUA's new management in the Department of Maldonado. In January 2001, a principal water main ruptured in Piriápolis, the second largest beach resort in Uruguay, leaving the city without potable water for four days.⁴⁴⁷ The public utility, OSE, had to bring in water tanker trucks to supply the city. In February 2001, URAGUA overcharged residents of Maldonado from between 50 to 300 percent on their bills, and was warned by the Comptroller of Concessions to take action to refund the overcharges.⁴⁴⁸ In January 2002, in the height of the summer tourist season, a sewer main ruptured in the luxurious beach resort of Punta del Este, contaminating potable water for weeks, and leading to a public health advisory to boil all water. This incident led to embarrassing friction within the ruling Colorado Party, as the Minister of Tourism publicly repudiated the health advisory issued by OSE (whose Director is also a political appointee of the ruling party), and proclaimed the water

⁴⁴⁶ Regional Latinoamericana de la Union de Trabajadores de la Alimentación, Agrícolas, Hoteles, Restaurantes, Tabaco y Afines (Rel-UITA) [Latin America Regional office of the International Union of Food, etc., Workers]. Interview with the Director of FFOSE, Adriana Marquisio, "Lo Esencial es que la gente se involucre." <http://www.rel-uita.org/agricultura/ambiente/agua/uruguay-2004/con-adriana-marquisio.htm> (February 28, 2005)

⁴⁴⁷ FFOSE 2002.

⁴⁴⁸ La Republica.(Uruguay). February 7, 2002. "El Agua Contaminada Genera Duro Roce Entre Colorados." <http://www.larepublica.com.uy/comunidad/70139-el-agua-contaminada-genera-duro-roce-entre-colorados> (January 13, 2008).

safe to drink.⁴⁴⁹ In a Parliamentary hearing held in February 2002 on the debacle, OSE supported the charges leveled by the trade union and the left-wing political party, Encuentra Progresista (EP), in which the latter blamed URAGUA for using sewage treatment “bypass” (dumping partially-treated sewage) into the port at Punta del Este, triggering elevated levels of fecal coliform bacteria in the water supply.⁴⁵⁰

The beginning of 2002 also heralded the worst economic crisis Uruguay had suffered in decades, capping a three-year downturn that had started in 1999. After averaging growth of 5 percent annually during 1996-98, in 1999-2002 the economy suffered a major downturn, stemming largely from economic problems in Argentina and Brazil, which together account for roughly half of Uruguay’s exports.⁴⁵¹ There is a well-known Uruguayan aphorism: “When Argentina sneezes, Uruguay catches a cold.” Argentina’s economic and financial meltdown in 2001-2002 had disastrous effects on Uruguay; during that period Argentines made massive withdrawals of dollars deposited in Uruguayan banks, leading to a plunge in the Uruguayan peso and a run on the banks in the summer of 2002. The official unemployment rate rose to almost 20 percent in 2002, inflation surged, and external indebtedness doubled.⁴⁵² In response to the deepening crisis, the IMF approved a two-year “Stand-by Credit”⁴⁵³

⁴⁴⁹ La Republica (Uruguay). February 7, 2002.

⁴⁵⁰ La Republica (Uruguay). February 7, 2002.

⁴⁵¹ U.S. Central Intelligence Agency. 2003. *The World Factbook 2003: Uruguay*. <http://www.cia.gov/publications/factbook/print/uy.html> (February 3, 2004).

⁴⁵² U.S. Central Intelligence Agency 2003.

⁴⁵³ A Stand-by Credit represents an increase in the Special Drawing Rights (reserve assets) that IMF member countries may draw on up to a specified amount and during a specified period of time, provided that the member observes the terms set out in the supporting Stand-By Arrangement. Stand-by Arrangements are lending instruments designed to help emerging market countries overcome balance of payments problems during economic crises. <http://www.imf.org/external/np/exr/facts/sba.htm> (December 29, 2010).

to Uruguay in March 2002 for \$781 million, increased this by \$1.5 billion in June 2002, and again by \$500 million in August 2002.⁴⁵⁴

As is standard procedure, in order to qualify for an increase in the reserves it may draw on, a country must submit a “Letter of Intent” (LOI) to the IMF accompanied by a Memorandum of Economic Policies (MEP) laying out the strategies it intends to pursue in accordance with IMF lending conditionalities—namely, stabilization policies and structural reforms. As it turned out, the Letter of Intent submitted by the GOU on June 18, 2002 requesting an augmentation of \$1.5 billion under its Stand-by Arrangement, became an important *raison d’etre* and rallying point for the formation of the CNDAV two months later, and the launch of the signature campaign to place the CR on the ballot in October 2002. In the LOI and accompanying MEP, the GOU committed to opening all public utilities to private sector involvement, to introducing new regulatory frameworks for all the public services, and to taking the following actions in the WSS sector by the dates specified:⁴⁵⁵

1. Introduce a new regulatory framework for the sector, with a proposal to be submitted to the General Assembly in September 2002.
2. Introduce new quality standards and controls to facilitate private investment, with the issuance of an Executive Decree in December 2002.
3. Invite bids to improve services in Montevideo (reduce “unaccounted for water” leakages) by December 2002.
4. Invite bids for PSP in sewage treatment plants by March 2003.

⁴⁵⁴ International Monetary Fund. 2002. “IMF Increases Stand-By Credit to Uruguay by US\$1.5 Billion,” News Brief No. 02/54, June 25. <http://www.imf.org/external/np/sec/nb/2002/nb0254.htm>. (December 13, 2005); “IMF Completes First Review and Approves New Increase on Uruguay Stand-By” August 8, 2002. News Brief No. 02/87. <http://www.imf.org/external/np/sec/nb/2002/nb0287.htm> (December 31, 2007).

⁴⁵⁵ International Monetary Fund 2002. “Uruguay-Letter of Intent, Memorandum of Economic Policies, and Technical Memorandum of Understanding.” Montevideo, Uruguay. June 18. <http://www.imf.org/external/np/loi/2002/ury/02/index.htm> (December 13, 2005).

In literature disseminated during the campaign and in retrospective analyses, leaders of the CNDAV pointed to these commitments as evidence of GOU capitulation to IMF conditions, negotiated with no transparency or public consultation. In reality, it does not appear that these commitments reached the threshold of IMF conditionality at all. None of the commitments above were listed as “prior actions,” “performance criteria,” or “structural benchmarks,” the three principal instruments the IMF uses to verify that a country is adhering to commitments before it disburses successive installments of a loan.⁴⁵⁶ Reforms in the telecommunications and state-owned oil sectors were listed as “structural benchmarks”-- which do not even technically qualify as IMF conditions-- but nowhere in the LOI or MEP does reform in the WSS sector rise even to that level.⁴⁵⁷ But apart from the claim that these commitments by the GOU would have wrested WSS from public management and control, the CNDAV leveled a much more explosive charge: it alleged that the IMF demanded that Uruguay’s mineral reserves, including its aquifers, be used to securitize the GOU’s debt repayment to the IMF, and that the GOU, consciously or unwittingly, agreed to these terms.⁴⁵⁸ The

⁴⁵⁶ Prior Actions are measures a country agrees to take before the Fund’s Executive Board approves a loan or completes a review; Performance Criteria are specific conditions that have to be met for the agreed amount of credit to be disbursed; and Structural Benchmarks are used for measures that cannot be monitored through objective measures such as quantitative indicators, and would not alone be sufficient to warrant an interruption in Fund financing. International Monetary Fund. September 2005. “IMF Conditionality.” Factsheet. <http://www.imf.org/external/np/exr/facts/conditio.htm>, accessed December 23, 2005.

⁴⁵⁷ International Monetary Fund. June 18, 2002. As noted in the preceding footnote, even if the WSS sector had been listed as a structural benchmark, failure to reach it would have had no effect on IMF loan disbursements.

⁴⁵⁸ REDES-Amigos de la Tierra Uruguay, “La Campaña Nacional en Defensa del Agua: Una Reforma Constitucional que Protege el Recurso Vital de Todos los Uruguayos.” <http://www.redes.org.uy> (July 30, 2003).

Declaration of the Social Forum of Uruguay in November 2002 echoed the

CNDAV's charge:

In Uruguay, the irresponsibility of the Government has led it to promote a public auctioning of the surface water and the mineral deposits of the country, that, among other things, includes the groundwater (aquifers). In short, this means the privatization of potable water and sanitation, as well as our water resources. This leads to a loss in the range of liberties in Uruguayan society that includes the management of water resources and the preservation of life and national sovereignty.⁴⁵⁹

Later on, in the final two months of the campaign in 2004, the Montevideo daily periodical, *La Republica*, repeated CNDAV's allegations about the IMF's loan, adding that the Government did not realize it had signed on to pledging the country's mineral reserves-- including the famed Guaraní aquifer-- as collateral.⁴⁶⁰ A day later, the IMF counter-attacked, sending a letter to *La Republica* which the newspaper reprised in an article on September 5, 2004. In it the IMF denied that financial aid provided to Uruguay was subject to "any guarantee to ensure payment." However, *La Republica* maintained that its own review of the contents of the June 2002 LOI showed that water reserves and aquifers were among the guarantees cited for payment of external debt, contradicting the IMF's affirmation to the contrary.⁴⁶¹ I could find no mention of such a guarantee in the June 2002 Letter of Intent, nor in the preceding March 2002 Memorandum of Economic Policy which accompanied the first, smaller IMF disbursement, and where reform of the water sector is not mentioned at all. A

⁴⁵⁹ Public Citizen Critical Mass Energy and Environment Program, "Declaration of the Social Forum of Uruguay." November 17, 2002. http://www.citizen.org/cmep/Water/cmep_Water/reports/uruguay/ (July 30, 2003)

⁴⁶⁰ *La Republica* (Uruguay). "Claves de la Reforma Constitucional: en Defensa del Agua y la Vida." August 29, 2004. <http://www.larepublica.com.uy/larepublica/2004/08/29/politica/152224/claves-de-la-ref>. (May 15, 2007)

⁴⁶¹ *La Republica*. "Polemica entre FMI y Comisión de Defensa del Agua." September 5, 2004. <http://www.larepublica.com.uy/lr3/larepublica/2004/09/05/politica/152931/polemica-entre-fmi-y-comision> (August 7, 2007)

CNDAV communication distributed through an e-mail list-serve on September 7, 2004, entitled “IMF Questions Uruguayan Movement in Defense of Water,” dropped any reference to the alleged demand by the IMF for the use of the country’s mineral reserves as collateral.⁴⁶²

Although it is very unlikely that this particular accusation leveled at the IMF was true, the notion that Uruguay’s natural resources and patrimony could be transferred to a multilateral creditor undoubtedly helped strengthen the movement against water privatization that was coalescing during 2002, attracting support from increasingly broad social sectors. Though falling short of formal conditionality, the agreement between the IMF and the GOU constituted a commitment by the Government to effectuate policy and legal changes without prior public notification and consultation. This was especially true of the promise to issue an Executive Decree in December 2002 to facilitate private investment.

By mid-2002, the debate over a CR began to take place formally within the FA-EP, where divisions emerged—though not along clear ideological lines. The largest political fraction in the FA-EP, the former Tupamaro-backed *Movimiento por Participación Popular* (MPP), joined with the more moderate, social democratic political fraction, Progressive Alliance (*Alianza Progresista*) to sponsor a CR initiative. However, the Socialist Party (*Partido Socialista*) expressed reservations, saying that it needed to study the proposal, especially because it had doubts that the measure could be applied retroactively if approved in the 2004 elections. Even more pointedly, the General Secretary of the Socialist Party expressed concerns that a

⁴⁶² REDES-AT, “IMF Questions Uruguayan Movement in Defense of Water,” September 7, 2004. List-serve document. Sent to: FTAA-INTL@LISTSERVER.CITIZEN.ORG, From: inforedes@eListas.net

reform measure to brake privatizations could negatively impact foreign direct investment, given the uncertainty investors would face about future contract revisions.⁴⁶³ The social-democratic political fraction *Vertiente Artiguista*, from which the then-mayor of Montevideo hailed, came out in direct opposition to a CR, citing the unfavorable political and economic climate and the undesirability of adding yet another element into the 2004 electoral campaign.⁴⁶⁴

In summary, a combination of factors in 2002 drove the growth of the movement against water privatization. Activists were increasingly exposed to, and influenced by, events in the international arena. By the time of the second World Social Forum in January 2002, Uruguayan representation from anti-privatization groups expanded significantly to include members of CDASCOP, FFOSE, and Friends of the Earth-Uruguay. On the domestic front, the IMF's Letter of Intent, problems with the URAGUA concession in the Department of Maldonado, and President Batlle's public declarations in favor of increased privatizations, contributed to building popular and organized political support. In August 2002, the Canelones community and labor-backed CDASCOP joined with FFOSE, Friends of the Earth-Uruguay, Sustainable Uruguay, and the Neighborhood League of Manantiales (the beach resort area east of Punta del Este, where Aguas de la Costa operated a smaller concession) to form a committee to plan a CR campaign.⁴⁶⁵ Two months later, the *Comisión Nacional en Defensa del Agua y la Vida*, CNDAV, was launched, its name a tribute to the *Coordinadora de Defensa del Agua y de la Vida* in Cochabamba,

⁴⁶³ La Republica (Uruguay). July 8, 2002. "Reforma Constitucional para impedir privatizaciones: FA, opiniones divididas." <http://www.larepublica.com.uy/politica/85290-reforma-constitucional-para-impedir-privatizaciones-fa-opiniones-divididas>. (May 15, 2007)

⁴⁶⁴ La Republica (Uruguay). July 8, 2002.

⁴⁶⁵ *Liga de Fomento de Manantiales*.

Bolivia, and a testament to the influence of transnational networking. Faculty and student organizations added their organizational backing to the coalition, along with factions of Frente Amplio. A growing awareness of an international movement against water privatization had combined with national-level forces to galvanize the formation of what would become one of the strongest multi-sectoral coalitions against water privatization in Latin America and perhaps, internationally.

6.4 CNDAV and the National Campaign in Defense of Water and Life, 2002-2004

A. The Constitutional Amendment: Basic Needs and the Environment Before Profits

On October 18, 2002, CNDAV formally launched a signature-collection campaign at the University of the Republic to place a plebiscite on the ballot in the October 2004 national elections. Article 331 of the Uruguayan Constitution permits citizens to offer amendments to the Constitution with the signatures of at least ten percent of registered voters, or at the time, about 245,000 people. The *Campaña Nacional En Defensa del Agua y de la Vida*, the “National Campaign in Defense of Water and Life,” described its goals as:

[aiming] to preserve water from the economic conception promoted by the IFIs and the Executive Power. The constitutional reform aims to set up a sustainable system for water management, defending national sovereignty in the management of a vital resource, protecting the public interest, and ensuring that potable water continues to reach even those social sectors that cannot pay for service.⁴⁶⁶

⁴⁶⁶ Translation from the Spanish. REDES-Amigos de la Tierra Uruguay, “La Campaña Nacional en Defensa del Agua: Una Reforma Constitucional que Protege el Recurso Vital de Todos los Uruguayos.” <http://www.redes.org.uy>. (July 20, 2003).

The reform campaign proposed amending Articles 47 and 188 of the Constitution to incorporate several key principles of the CNDAV: that access to water and sanitation are fundamental human rights, that these services must be delivered exclusively and directly by the State, and that water must be managed sustainably and through participatory planning and control. The text of the amendments is as follows:⁴⁶⁷

Article 47

To be added:

- Water is a natural resource essential for life.
- Access to water and sanitation are fundamental human rights.

1) National water and sanitation policy will be based on:

- a) land use planning, conservation, environmental protection, and the restoration of nature;
- b) the sustainable joint management of water resources with future generations, and the preservation of the water cycle as a matter of collective interests;
- c) the prioritization of water use by regions, basins, or sub-parts thereof, with the first priority being the supply of drinking water to the population; and
- d) the principle that the provision of water supply and sanitation must prioritize social needs before economic requirements. Every authorization, concession or permit which violates this principle shall be rendered null and void.

2) With the exception of rainwater, surface water and sub-surface water, being integrated in the water cycle, constitute a collective resource, subordinated to the collective interest and form part of the public state domain, as the public water domain.

3) Water and sanitation services will be provided exclusively and directly by the State.

4) By three-fifths vote of each legislative chamber, water may be provided to other countries in need due to scarcity or for reasons of solidarity.

Article 188

⁴⁶⁷ FFOSE *Legislación: Reforma Constitucional*, <http://www.ffosustse.org.uy/aguayvida/legislacion.htm> (October 15, 2004) and Santos and Villareal 2006, 6. Author's translation from the Spanish..

The transitory and special provisions added to this article (referring to public-private economic associations), are not applicable to the essential services of potable water and sanitation:

To be added:

(Indent “Z”) Any claims for compensation that correspond to the entry into force of this reform may indemnify only for non-amortized investments, but not for loss of future earnings.

Carlos Santos and Sebastian Valdomir, participant-observers in the campaign, point out that the CR set an important international precedent in being one of the first instances where an environmental right, sustainability, was included in the Constitution, along with the requirement for participatory management of water resources.⁴⁶⁸ The rationale for Article 188 was to head off any challenges that might be brought under BITs by foreign investors claiming that the CR measures constituted expropriation. The CNDAV had investors’ reaction to the anti-privatization movement in Bolivia as an object lesson in this regard. As I discussed in Chapter 5, Bechtel and its co-investors filed a \$50 million claim against the Bolivian government with the World Bank’s ICSID; this claim sought not only recovery for sunk investments, but also for estimated lost future profits. Leaders of the CNDAV were aware that both major private concessionaires in the country, Aguas de la Costa and URAGUA, could seek remedies under the 1992 BIT between Spain and Uruguay, which provided that disputes could be remanded to ICSID.⁴⁶⁹ As the CNDAV’s Alberto Villareal told me, the insertion of Article 188 in the Constitution was an

⁴⁶⁸ Santos and Valdomir 2006.

⁴⁶⁹ Santos and Valdomir 2005.

attempt to inoculate the CR against this potential scenario.⁴⁷⁰ As participant-observers within CNDAV put it:

The threat of popular sovereignty being ceded to international tribunals is a new factor that has to be taken into account when formulating water policies; MNCs shelter themselves in BITs, which can take on more force than the Constitution. A strong international campaign is needed to expose and defeat the undemocratic character of the international arbitration panels that the water corporations have threatened to use to impose their will over the Uruguayan people...[the insertion of Special Disposition “Z” in Article 188] is in direct conflict with normal practice in BITs and FTAs...and puts the local struggle against water privatization in the international arena.”⁴⁷¹

In contrast, Mario Bergara (who became the Undersecretary for Economics and Finance under President Vasquez, and is currently Central Bank president) told me he viewed Article 188’s “Indent Z” as an “awful signal to the investment community.”⁴⁷² (Though a member of FA-EP, Bergara was associated with the more centrist political fraction *Asamblea Uruguay*, from which Vasquez would later choose his Minister of Economics, the market-friendly Danilo Astori).

The inclusion of environmental and social/human rights in Article 47 reflected the conjoint emphasis placed on these rights by the CSOs which formed the nucleus of the CNDAV. The inclusion of Article 188, Indent “Z,” reflected the leadership’s integration into activist transnational networks fighting not only water privatization, but also neoliberal trade and investment regimes and IFI policies.

B. Characteristics of the CNDAV

⁴⁷⁰ Conversation with Alberto Villareal, CNDAV, October 2004.

⁴⁷¹ Santos and Villareal 2005, 178-179; Santos and Valdomir 2005, 2.

⁴⁷² Interview with Mario Bergara, Montevideo, Uruguay, October 27, 2004.

During the campaign period of 2002-2004, the CNDAV evolved into a broad-based popular alliance of trade unions, environmental NGOs, grassroots urban movements, neighborhood associations, students and faculty organizations, and fractions of the two biggest political parties, FA and the National Party. As discussed previously, the water workers' trade union FFOSE, Friends of the Earth-Uruguay, and two neighborhood civic organizations in Canelones and eastern Maldonado provinces, CDASCOP and the Manantiales Promotion League, formed the early nucleus of the Comisión. Table 3 lists the member organizations of the CNDAV and highlights the most active organizations in the coalition. Verónica Iglesias, a participant-observer of the water campaign associated with the social-cultural institute Casa Bertolt Brecht in Montevideo notes that there were two important characteristics of CNDAV which differentiated it from predecessor coalitions which had organized to promote referendums or plebiscites. These were its strong connection to international networks, and its heterogeneous composition across social groups.⁴⁷³ During the campaign's run-up to the 2004 election, the CNDAV set up various local commissions across the country, taking advantage of FFOSE's affiliates in the interior Departments. Iglesias characterizes this on-the-ground organizing as "participation from below," one of the CNDAV's strengths in the pre-election period. Iglesias and Santos maintain that while CNDAV benefited from the history of direct democracy strategies that were employed in the 1990s with great success, it had

⁴⁷³ Iglesias, Verónica. July 2008. "Desde arriba y desde abajo: La participación ciudadana en la implementación de la reforma del agua en Uruguay," in *Participación y proyecto político emancipador*, eds. Rosana Abella y Javier Taks, 49.

several characteristics of new social movements.⁴⁷⁴ They cite the coalition's use of "strategic rationality"-- the integration of a multiplicity of actors from diverse backgrounds, something which had not characterized previous popular or direct democracy initiatives in Uruguay. CNDAV also employed new organizational forms, such as the adoption of general plenaries as a mechanism for horizontal decision-making and decision-making by consensus. Javier Taks, a participant-observer affiliated with Casa Bertolt Brecht and the University of the Republic of Uruguay (UDELAR), cites this decision-making structure as another factor which differentiated CNDAV from previous popular coalitions that promoted referendums against the privatization of social services.⁴⁷⁵ For example, although employment protection for public sector workers was a key motivation for the campaign, Taks states that this agenda was not "hegemonic." Environmental considerations and the concept of water as a common good were equally, if not more, important. The CR campaign coordinator for REDES-AT, Maria Selva Ortiz, told me that REDES had not always collaborated well with trade unions on environmental issues, unlike in the CNDAV.⁴⁷⁶ She described FFOSE as having progressive environmental politics, often articulated by FFOSE's Vice-President and a prominent trade union leader, Adriana Marquisio.⁴⁷⁷

⁴⁷⁴ Santos and Iglesias. 2006. "Movimientos Sociales en la Defensa del Agua: el Caso de Uruguay," in *Anuario, Antropología Social y Cultural en Uruguay, 2006*. Office of UNESCO, Montevideo, Uruguay. <http://www.unesco.org.uy/shs/areas-de-trabajo/ciencias-sociales/publicaciones/antropologia.html> (October 14, 2007).

⁴⁷⁵ Taks, Javier. 2008. "El Agua es de Todos/Water for All: Water Resources and Development in Uruguay." *Development* 51(March):17-22. <http://www.palgrave-journals.com:80/development/journal/v51/n1/full/1100464a.html> (July 31, 2008)

⁴⁷⁶ Telephone interview with Selva Ortiz, December 22, 2003.

⁴⁷⁷ Telephone interview with Selva Ortiz, December 22, 2003.

TABLE 3
CNDAV Member Organizations

Organization	Description
Asociación de Remitentes	Pensioners' Association
Casa Bertolt Brecht *	Progressive institute promoting German culture and language; provides institutional and financial support to Uruguayan causes
Centro de Viticultores de Uruguay	Winegrowers' Association
Comisión Barrial Zona Oeste	Neighborhood Commission, eastern Maldonado
Comisión de Defensa del Agua y Saneamiento de Costa de Oro y Pando (CDASCOP)*	Neighborhood organization in fast-growing province of Canelones; precursor to CNDAV
Comisión Nacionalista en Defensa del Agua	
Conosur	
Convergencia Socialista	
Coordinadora del Barrio Sur y Adyacencias	
Consumidores del Uruguay Asociados	Uruguay affiliate of Consumers International
Docentes de la Facultad de Ciencias y Facultad de Ingeniería*	Faculty of Science and Engineering, University of the Republic of Uruguay
ECOS	Foundation promoting sustainable development located in Maldonado
Federación de ANCAP	Trade union of the state energy enterprise (fuels and combustibles)
Frente Amplio - Encuentro Progresista - Nueva Mayoría*	Broad Front-Progressive Encounter-New Majority. Left-of-center ruling political party in Uruguay.
FENAPES	National Federation of Secondary School Teachers
FEUU*	Federation of University Students
FFOSE*	Federation of OSE Public Employees. WSS utility trade union
FUCVAM*	Federation of Mutual Aid Housing Cooperatives. One of the largest and most influential urban social organizations and movement in Uruguay.
Liga de Fomento de Manantiales*	Manantiales Promotion League. Civic organization in eastern Maldonado province, served by <i>Aguas de la Costa</i> .
MADUR	Uruguayan Movement of Agricultural Cultivators
Movimiento por la Utopía	
Partido Nacional - Todo por el Pueblo	National Party-- fraction
Partido por la Seguridad Social	Social Security Party
Partido Verde Ecologista	Green-Ecology Party
PIT-CNT	Uruguayan Trade Union Central Federation

TABLE 3
CNDAV Member Organizations

Organization	Description
Proyecto Solidario Cultural Sayago - SODEC	
REDES - Amigos de la Tierra*	Social Ecology Network-Friends of the Earth, Uruguay.
UITA*	International Federation of Food, Tobacco, and allied workers—Latin American Regional Division
Unión de Mujeres del Uruguay	Women's Union of Uruguay
Uruguay Sustentable*	Sustainable Uruguay, environmental research organization working with REDES-AT and faculty of the University of the Republic
* Denotes Key Member. Source: FFOSE, available at: http://www.ffose.org.uy/aguayvida/ (accessed October 15, 2004)	

The Trade Union Axis

During the campaign, FFOSE represented about 4000 workers in the Obras Sanitarias del Estado, or about 75 percent of OSE's workforce. It is affiliated with the national trade union central organization in Uruguay, PIT-CNT, and with the international confederation of public sector workers, Public Services International (PSI). The respect accorded FFOSE by environmental NGOs in the CNDAV was rooted in the trade union's emphasis on environmental issues and its support for a "social-ecological" vision. In July 2002, FFOSE's Executive Secretariat issued a document laying out the platform which later constituted the central discourse and strategic orientation of the National Campaign in Defense of Water and Life.⁴⁷⁸ This discourse centered on the ecological dimension, the importance of social participation, public management, and water as a "fundamental human right."⁴⁷⁹ A 31 page booklet that FFOSE published during the same year included a detailed discussion of water resources and basins; the importance of integrated management of water resources; and the recognition of transboundary effects. FFOSE pointed to fragmented authority among the several Ministries responsible for managing water, and recommended that one governing law for water be adopted under the control of a single institution which would regulate water, such as the Ministry for the Environment.⁴⁸⁰

Marquisio credited REDES-AT and Friends of the Earth-International with educating the union about institutions which were promoting market liberalization of

⁴⁷⁸ Santos and Iglesias 2006.

⁴⁷⁹ Santos and Iglesias 2006.

⁴⁸⁰ FFOSE 2002.

water services. FFOSE's literature throughout the campaign echoed the themes that potable water and sanitation must be kept outside of trade agreements and institutions, including the WTO and the General Agreement on Trade in Services (GATS), and the Free Trade Agreement of the Americas (FTAA). FFOSE also credited REDES for putting it in touch with many transnational groups grappling with the water "problematic," such as the Council of Canadians and the Polaris Institute in Canada, which became strong supporters of the campaign.

FFOSE played a vital role during the campaign in providing financial support to CNDAV, as well as in providing foot soldiers for the signature collection campaign which put the referendum on the ballot. FFOSE launched a sophisticated website, which remained online for several years after the constitutional victory.⁴⁸¹ Marquisio appeared in two televised debates prior to the election, facing off against OSE's then vice-president, Hugo Granucci (who subsequently was sentenced and imprisoned for various counts of fraud committed during his tenure at OSE.)⁴⁸² FFOSE received some public relations support during the campaign from Public Services International,⁴⁸³ the international federation for public sector trade unions with which it is affiliated, but did not receive financial support. Cameron Duncan, then the Regional PSI Director for the Inter-Americas, told me that financial support to affiliated unions is given only in limited instances, and that PSI often provides direct help when the conflict is focused specifically on a corporation—less the case in

⁴⁸¹ See <http://www.ffose.org.uy/aguayvida/> (October 12, 2004; August 18, 2008)

⁴⁸² La Republica (Uruguay), online. 2007."Granucci y Rodríguez Landoni, a la cárcel por irregularidades en OSE." April 26. <http://www.larepublica.com.uy/politica/255550-granucci-y-rodriguez-landoni-a-la-carcel-por-irregularidades-en-ose>

⁴⁸³ PSI has 650 affiliated trade unions in approximately 150 countries, which represent on the order of 20 million trade unionists at all levels of government. See http://www.world-psi.org/TemplateEn.cfm?Section=PSI_international&Template=/ContentManagement/ContentDisplay.cfm&ContentID=13037

Uruguay.⁴⁸⁴ PSI issued a strong statement of support for the *Campaña Nacional* at its 2002 World Congress, where it also launched its “Global Campaign for Quality Public Services.” This campaign was launched to burnish the reputation of publicly provided services in response to the “serious policy failures in some high-profile privatization and public sector reform programs.”⁴⁸⁵ More direct international trade union support was provided to FFOSE by the Latin American regional secretariat of the International Union of Food, Agricultural, and Allied Workers (IUF), headquartered in Montevideo. *Rel-UITA*, as it is known by its Spanish acronym, (for *Union Internacional de Trabajadores Agrepecuarios, Secretaría Regional Latinoamericana*), was a member of the CNDAV, and provided public relations support to the campaign through extensive print, internet, and radio publicity.⁴⁸⁶

The Environmental Axis

REDES-AT, the Uruguayan affiliate of Friends of the Earth-International (FOEI), was the other organizational pole of the water campaign, complementing FFOSE’s financial support with academic research, strong transnational linkages, and agility in disseminating campaign communications through various media. REDES was founded in 1988 and joined FOEI that same year. It describes its orientation as “social-ecological” as opposed to “environmental,” with the former term connoting a perspective which approaches environmental problems from a socioeconomic,

⁴⁸⁴ Interview with Cameron Duncan. Regional Director for the Inter-Americas, Public Services International, January 7, 2004, Washington, D.C. Duncan also noted that due to internal conflicts within FFOSE, it was in arrears in dues payments to the federation.

⁴⁸⁵ Resolution No. 12, *PSI Programme of Action 2002-2007*, PSI 27th World Congress, Ottawa, Canada, September 2-6, 2002.

⁴⁸⁶ Radio Rel, for example, hosted a radio show, *Todos por el Agua*, with a mock conversation between a barber and his client on the importance of a vote in favor of the CR.

political, and cultural standpoint. The social-ecological perspective “understands that the current environmental crisis derives in large measure from the processes of resource concentration, and from profit-seeking corporate actors.”⁴⁸⁷ Its activities include campaigning, information sharing, research, environmental education, and lobbying; during the campaign period of 2002-2004, it had six local groups and a youth branch. Its programs were organized into four areas: “Sustainable Uruguay” (an affiliate of the regional “Program for a Sustainable Southern Cone”); biodiversity; participation and land-use planning; and trade and the environment.⁴⁸⁸ REDES linked all these programmatic themes to the water campaign in its literature and activism. For example, the Sustainable Uruguay program drew on faculty from UDELAR to formulate a proposal for improved territorial water governance through the creation of autonomous basin authorities to act as intermediaries between national and Departmental-level authorities.⁴⁸⁹ During the campaign period REDES served as the Latin American regional coordinator for two of FOEI’s global campaigns on Trade, the Environment and Sustainability; and Genetically-Modified Organisms.⁴⁹⁰ REDES leader Alberto Villareal was the coordinator of these FOEI campaigns, and played a key role as a social entrepreneur in the CNDAV in forging transnational linkages, and disseminating information about the CR campaign at international meetings and forums.⁴⁹¹ Villareal was one of the main activist spokespeople on agricultural and water issues in FTAA meetings, and REDES staff played an

⁴⁸⁷ REDES-AT website. <http://www.redes.org.uy/redes.html>. (December 5, 2003).

⁴⁸⁸ REDES-AT website.

⁴⁸⁹ Marcel Achkar. August 2002. *Propuesta para una Gestión Sustentable de los Recursos Hídricos*, Programa Uruguay Sustentable. <http://www.redes.org.uy/redes.html> (July 28, 2003).

⁴⁹⁰ See <http://www.foei.org/groups/members/uruguay.html> (December 2, 2003 and September 8, 2008).

⁴⁹¹ Interviews with Sara Grusky, various dates.

important role in the 2004 WTO meetings in Cancun, Mexico. In 2003, “Water Justice for All” became the tenth recognized global campaign for FOEI, linking to three other campaigns on resisting corporate domination, international trade, and the IFIs.⁴⁹² However, REDES-AT did not obtain any direct funding from FOEI for the water campaign, and as Selva Ortiz told me, FOEI only contributed in-kind resources, such as the use of office space in Montevideo and “solidaristic” support.⁴⁹³ Carol Welch, Director of International Programs at Friends of the Earth-U.S., told me that campaigns such as Uruguay’s have normally been decentralized both in decision-making and in funding. Although water had by 2003 become a campaign issue for FOEI, it was a lower priority than other campaigns, and as Welch noted, it was “the Trade and IFIs campaigns driving water.”⁴⁹⁴ Welch indicated that REDES-AT had received support from various foundations in the U.S. and Europe.

In addition to deploying member volunteers and staff to work on the water reform campaign, REDES’ full-time coordinator, Maria Selva Ortiz, represented CNDAV at the Third World Water Forum in Japan. REDES played a critical role throughout the campaign publicizing and disseminating information through its website, webcasts on its online radio station, *Radio Mundo Real*, and through active engagement in a number of transnational activist listservs and electronic mailing lists, such as “Water Warriors,” Public Citizens’ FTAA-International listserv, and FOEI’s

⁴⁹² Pocket Brochure, Friends of the Earth International Secretariat. September 2003. Amsterdam, The Netherlands.

⁴⁹³ Telephone interview with Selva Ortiz. December 22, 2003.

⁴⁹⁴ Interview with Carol Welch. Director-International Programs, Friends of the Earth-U.S., December 8, 2003, Washington, D.C. .

Latin America and Caribbean regional listserv.⁴⁹⁵ REDES' integration into international activist networks was reflected in the campaign literature posted on its website, which made explicit links between the water situation in Uruguay, globalization, and the role of the IFIs and a complicit Uruguayan state in promoting PSP. For example, two main CNDAV publications emphasized that:

The campaign aims to preserve water from the economic conception promoted by the IFIs and the Executive Branch....The World Bank, IMF, and the IDB are proposing management of water that cedes control to the private sector through commercialization, privatization, and large-scale development - transforming water into a commodity. Since 1992, but especially since 2001, there's been a thrust towards privatizing water and sanitation services in Uruguay, with the department of Maldonado being the test case. The decision to privatize services in Maldonado was taken by the top management of OSE and the municipal government of Maldonado, but in accordance with the policies of the Executive Branch, which is responding to pressure from the IFIs, in particular the IMF's Letter of Intent....No public consultation was undertaken to solicit the public's view...⁴⁹⁶

Several years after the reform, REDES continues to be CNDAV's nexus to the transnational water movement.

The Role of Political Parties

As discussed previously, initial FA support for the CR was mixed, with strong support from the leftist MPP fraction and the social-democratic Progressive Alliance fraction, a non-committal stance on the part of the Socialist Party, and opposition from another social-democratic fraction, *Vertiente Artiguista*. However, the CNDAV had to court the support of the FA in 2002-2003, since it needed its support in

⁴⁹⁵ Various electronic mail communications; see also <http://www.redes.org.uy/> (July 30, 2003 and various); <http://www.redes.org.uy/category/agua/> (November 10, 2008); and <http://www.radiomundoreal.fm/rmr/> (November 10, 2008).

⁴⁹⁶ REDES/ Amigos de la Tierra Uruguay, "Porqué No Podemos Vender el Agua," and "La Campaña Nacional en Defensa del Agua: Una Reforma Constitucional que Protege el Recurso Vital de Todos los Uruguayos." <http://www.redes.org.uy>. (July 30, 2003).

Parliament to garner two-fifths of the chambers' votes for a proposed CR to go forward.⁴⁹⁷ By 2004, Frente Amplio had a designated representative to CNDAV, Carlos Coitiño, who joined Adriana Marquisio in public debates against leaders of the other political parties which opposed the reform measure.⁴⁹⁸ Nevertheless, other CNDAV members characterized the FA's commitment to the campaign as "mixed," and as taking a secondary place in the Party's political agenda and media campaigns. Marquisio's view was that those who really committed to doing the work were the rank and file members and not the leadership of FA. She complained that CNDAV was "kept on the sidelines of the internal debate within FA over the water plebiscite, and that the FA did not conduct a thoroughgoing analysis of what adherence to the reform would entail."⁴⁹⁹ In the months prior to the October 31 election, tensions grew between the CNDAV and FA. This followed on a trip by Tabaré Vázquez and Danilo Astori⁵⁰⁰ to Spain, during which the two FA leaders assured Spanish business leaders and investors that concession contracts "would be respected, and the rules made clear and permanent."⁵⁰¹ CNDAV claimed that this contradicted its own clearly articulated position on the water concessions, which is that they would be terminated after the reform took effect. The "mixed" signals from FA prior to the election were transformed into direct confrontation after the election, when, as discussed below,

⁴⁹⁷ Constitution of the Republic of Uruguay, Article 331(B).

<http://www.parlamento.gub.uy/constituciones/const004.htm> (November 22, 2008).

⁴⁹⁸ Espectador.com. November 26, 2004. "Sí o no a la Reforma del Agua."

http://www.espectador.com/1v4_contenido.php?id=26743&sts=1 (November 26, 2004).

⁴⁹⁹ La Republica (Uruguay). November 24, 2004. "Promotores de la reforma dijeron que el FA apoyó la iniciativa con 'ligereza.'" <http://www.larepublica.com.uy/politica/160692-promotores-de-la-reforma-dijeron-que-el-fa-apoyo-la-iniciativa-conligereza> (November 26, 2004)

⁵⁰⁰ Astori, from the moderate social-democratic fraction *Asamblea Uruguay*, was then presumed the likely candidate for Minister of the Economy, the position he was later awarded. Astori was well-liked by the business community in the U.S.

⁵⁰¹ La Republica (Uruguay). November 24, 2004.

questions of how to deal with the concessions moved squarely into the foreground. Notwithstanding some political fractions' lukewarm support for the plebiscite, every political fraction of the FA inserted the "Yes" ballot (*papeleta por Sí*) in their respective candidates' lists before the elections and at the polls, for deposit into the ballot boxes (*urnas*). This physical endorsement of the reform measure was key to its success.

In addition to FA's endorsement of the water plebiscite, *Alianza Nacional*, the fraction of the National Party (PN) headed by Jorge Larrañaga, also supported the water reform, and likewise inserted the *Sí* ballots in its electoral lists. Hitherto a minor fraction in the National Party, *Alianza Nacional* scored an upset two-to-one victory in 2004 over the historically-dominant "Herrerismo" fraction, from which former President Lacalle hailed. The Herrerismo fraction of the PN did not support the water initiative. In a study on the relationship between popular initiatives in Uruguay and party loyalties, David Altman found a highly significant correlation between the amount of votes received by any referendum or plebiscite and the amount of votes received by those political fractions that supported it.⁵⁰² The water plebiscite won 64.6 percent of the vote in Uruguay, while FA-EP garnered 50.4 percent, and the PN, 34.3 percent of the vote (*Alianza Nacional*, which supported the reform, won 66 percent of the total PN vote).⁵⁰³ It is clear that support for the CR was deeper and wider than support for Frente Amplio alone, crossing party lines. This is not

⁵⁰² David Altman. 2002. "Popular Initiatives in Uruguay: Confidence Votes on Government or Political Loyalties?" *Electoral Studies* 21: 617-630. He reported a correlation coefficient of 0.9.

⁵⁰³ Universidad de la Republica, Area Política y Relaciones Internacionales del Banco de Datos, Facultad de Ciencias Sociales.
http://www.fcs.edu.uy/pri/archivos/Elecciones_Internas/Elecciones_Internas_2004.xls (November 24, 2008)

surprising for several reasons. In 2004, the Uruguayan electorate continued to be the most skeptical in Latin America of the market's ability to promote development, rating the state's responsibility for citizen's welfare higher than the regional average.⁵⁰⁴ Although the National Party had been historically identified as a center-right party, Larrañaga framed his campaign discourse in such a way as to attract the center-left votes that the Colorado Party was losing.⁵⁰⁵ But crucially, without the CNDAV's pressure and campaign, neither the FA or the PN would have supported the reform to the extent they did. Moreover, the CR was relegated to secondary status in the parties' electoral campaigns.⁵⁰⁶

Other Key Actors in the Coalition

Several other CNDAV member organizations played active roles in the campaign. Noteworthy among these was the Uruguayan Federation of Mutual Aid Housing Cooperatives (*Federacion Uruguaya de Cooperativas de Vivienda por Ayuda Mutua*, FUCVAM), a strong urban social movement in Uruguay which consolidated grassroots mutual aid cooperatives into a social force. FUCVAM was in the forefront of protests against the authoritarian government in the early 1970s, played an important role in the process of re-democratization in the early 1980s, and has sought, through direct action and/or support for state and community intervention, solutions to social problems such as the provision of basic services, health care,

⁵⁰⁴ Luna, Juan Pablo. 2007. "Frente Amplio and the Crafting of a Social Democratic Alternative in Uruguay." *Latin American Politics & Society* 49 (Winter): 1-30.

⁵⁰⁵ Altman and Castiglioni. 2006. "The 2004 Uruguayan elections: A political earthquake foretold." *Electoral Studies* 25 (March): 147-154.

⁵⁰⁶ Espectador.com. "El plebiscito sobre el agua." Interview with Oscar A. Bottinelli, Director of Uruguayan polling firm, FACTUM, October 27, 2004.
http://www.espectador.com/1v4_contenido.php?id=29440&sts=1 (November 28, 2004).

education, and community-managed food programs. An active member of FUCVAM explained to me the reasons why his organization supported the water plebiscite:

“Cooperatives incorporate direct democracy. FUCVAM has always supported such measures to defend the Uruguayan state.”⁵⁰⁷ I observed the contribution FUCVAM made to the mobilization efforts in the run-up to the October 31 election. Its offices in Montevideo became transformed into a staging area for large groups of volunteers preparing and coordinating activities in support of the CR. This included dropping off ballots and voter instruction manuals at polling stations across the capital.⁵⁰⁸

Casa Bertolt Brecht, founded in 1964 in Montevideo to promote cultural exchange between Uruguay and Germany, and as a progressive “space” for political formation and activities, has been an important source of financial and organizational support to CNDAV. It established a “Project in Defense of Water and Life” in collaboration with CNDAV which built support for the CR through international conferences, national-level seminars to popularize the water issue, demonstrations, and numerous publications on the water problematic. Two weeks before the October election, Casa Bertolt Brecht helped to organize a panel discussion at Montevideo’s municipal auditorium entitled “Blue Gold: Multinational Corporations and Organized Water Theft All Over the World,” which featured Canadian activist Maude Barlow. I attended this panel discussion, and noted that it drew a diverse audience of several hundred people on a weeknight. At the event, Casa Bertolt Brecht unveiled a 140 page edited volume called “The Open Taps of Latin America: Latin American and Global Resistance to the Private Appropriation of Water.” The title in Spanish is a

⁵⁰⁷ Interview with Sebastian Oliveira, FUCVAM office in Montevideo, October 28, 2004.

⁵⁰⁸ Author’s observations, FUCVAM offices, Montevideo, October 28, 2004.

play on words: it is a permutation of the title of the renowned book, *The Open Veins of Latin America*, by acclaimed Uruguayan author Eduardo Galeano.⁵⁰⁹ That book's leitmotif concerned centuries of resource exploitation in Latin America. (Galeano was a strong supporter of the CR and CNDV campaign.) The "Open Taps" volume, which was being sold as a fundraiser for the campaign, contained contributions from the international network of water activists and a dedication from the water movement in Bolivia. Casa Bertolt Brecht has since published a second edition of this volume, which has become one of several primary reference documents for the international water movement. Financial support for its water project and pre- and post-reform activities has come from the Heinrich Böll foundation in Germany, Bread for the World, and other German foundations and organizations such as Umverteilen! ("Redistribution") and World Economy, Ecology, and Development (WEED).⁵¹⁰

University students and faculty were also active participants in CNDV, in particular, the union of university students, FEUU, and faculty from the sciences and engineering department, several of whom did active research through their connection to REDES' Sustainable Uruguay program.

C. Transnational Support, Opposition, and Victory: 2003-2004

As Iglesias notes, the other distinguishing characteristic of CNDV was its integration into international activist networks. CNDV drew early strength from solidaristic networking with other transnational water and IFI-focused activists; as previously noted, the majority of founding organizations participated actively in the

⁵⁰⁹ Grosse, Thimmel and Taks. October 2004. Galeano's book is *Las Venas Abiertas de América Latina*, *The Open Veins of Latin America*.

⁵¹⁰ Casa Bertolt Brecht, *Defensa del Agua y de la Vida*.

WSF II in Porto Alegre. Table 4 lists the most engaged international NGOs and activist water networks which provided support to CNDAV during the course of the campaign. Support included information and media dissemination, signature campaigns, publicity tours, solidaristic networking, and financial assistance. Of these organizations, the Council of Canadians, La RED VIDA, and Public Citizen were three of the most prominent and visible supporters, helping to publicize the campaign and garner international support, including financial help. Foundations such as the German Heinrich Böll and the U.S. Panta Rhea Foundation, also provided support.

TABLE 4 Transnational CSO and NGO Support for CNDAV
Consumers International, Office for Latin America and the Caribbean
Coordinadora en Defensa del Agua y la Vida (Bolivia)
Council of Canadians
Friends of the Earth-International
International Union of Food, Agriculture, Hotel, Restaurant, Tobacco, and Allied Trades—Latin America Regional Secretariat (Rel-UITA)
Polaris Institute (Canada)
Public Citizen, Water for All Campaign (U.S.)
Public Services International
RED VIDA

During the second phase of the campaign to gather the legally-required minimum number of signatures to place the CR on the October 2004 ballot,

transnational networking began to increase bi-directionally, with CNDAV participating visibly in international water events, and transnational activists in turn, highlighting the importance of the CR. Several key networking events transpired during 2003:

- In January 2003 leaders of the Council of Canadians, the Polaris Institute, Public Citizen, and the Cochabamba Coalition for Defense of Water and Life participated in a “Solidarity Tour” to Argentina and Uruguay. In Uruguay, the group held several open forums and met with government officials and the press.⁵¹¹ Directly following this tour, members of the CNDAV attended the third World Social Forum in Porto Alegre, Brazil. FFOSE members stated that the WSF helped it establish networks of communication with other labor groups and “compañeros from countries that had survived privatization who...offered their solidarity through e-mail chains, calling and pressuring the Executive Branch, the Directors of OSE and the relevant Cabinet Ministers.”
- In March 2003, REDES-AT’s Maria Selva Ortiz made a public statement at the third World Water Forum in Kyoto, where she denounced the World Water Council’s (WWC) *World Water Action* report, which presented the privatization of Uruguay’s water as an example of “actions taken around the world to improve the way water is managed.” Selva-Ortiz maintained that the WWC made little or no effort to consult with those affected by privatizations, and ignored successful community-based models of service delivery such as those in Porto Alegre, Brazil and Santa Cruz, Bolivia.⁵¹²
- In August 2003, CNDAV participated in the founding of the Inter-american Network for the Defense of and Right to Water (*Red Vigilancia Interamericana para la Defensa y Derecho al Agua, Red VIDA*) in El Salvador, during an international conference on “Citizens’ Movements Confronting Water Privatization.” (Red VIDA is discussed in Chapter 5.) Organizations from 16 Latin American and Caribbean countries participated, and agreed to support the CR signature collection campaign through a call for letters of solidarity.

⁵¹¹ Public Citizen Critical Mass Energy and Environment Program. N.D. “Solidarity Tour- Uruguay and Argentina.” http://www.publiccitizen.org/cmep/Water/cmep_Water/reports/argentina/articles.cfm?ID=8839 (July 30, 2003).

⁵¹² Olivier Hoedeman. 2003. “World Water Forum Organiser Promotes Water Privatization.” March 16. Japan Independent Media Center. <http://japan.indymedia.org./feature/display/119/index.php> (August 13, 2003).

On October 31, 2003, CNDAV achieved its first momentous victory with the delivery of over 280,000 signatures to the President of the General Assembly-- 25,000 more signatures than the minimum requirement of ten percent of registered voters. The signatures were delivered by what CNDAV described as a “human river” of hundreds of marchers, starting at the headquarters of FFOSE in Montevideo, and terminating at the Legislative Palace.⁵¹³ Daniel Viglietti addressed the assembled crowd and read from a proclamation of the Commission:

We call today on the Uruguayan people to join in that titanic struggle which confronts the modern-day Goliaths with weak people who want to defend their existence and their viability on the earth, so as to guarantee to their children and grandchildren a country which still maintains the green color of hope.

During the rally, the campaign received letters of support from numerous international campaigns in support of water rights, including from *La Coordinadora* in Bolivia.

The delivery of signatures to Parliament marked the beginning of the third phase of the campaign: mobilization and preparation for the 2004 elections. A little over a month later on December 7, 2003, the water campaign was given a boost as more than 60 percent of Uruguayans voted by referendum to repeal a law that would have led to the partial privatization of the state oil company, ANCAP (*la Administración Nacional de Combustibles, Alcoholes y Portland*). Repeal of the law followed a period of intense debate in the country and was supported by social and political organizations, including ANCAP’s trade union, Frente Amplio, and the

⁵¹³ El Pais Digital. 2003. “Entregaron firmas para plebiscito sobre el agua.” October 31. <http://www.elpais.com.uy/Paginas/ImprimirNota2.asp?I=65064> (December 8, 2003). CNDAV sought a margin of safety of 15 percent of registered voters, based on the discard rate of previous ballots by the Electoral Court.

CNDAV.⁵¹⁴ For the CNDAV, the referendum outcome, including majority support from cities in the country's traditionally more conservative interior, signaled a defeat for President Battle's neoliberal agenda, and inspired hope that the water plebiscite was headed for a similarly positive fate. During that same month CNDAV and REDES helped organize the "First Social Forum on Water," which drew several hundred participants from Argentina and Uruguay. The Forum focused on support for the CR and rejection of water privatization generally, but also on other water-related environmental issues such as opposition to the proposed World Bank-backed cellulose plant in Fray Bentos, Uruguay, and on how to create legal instruments for the sustainable management of the Guaraní aquifer.⁵¹⁵

As outlined in Table 5, the months preceding the October 2004 election witnessed both a consolidation of domestic and international support for the campaign, and the gelling of some political opposition around an alternative CR proposal, put forth by the small Independent Party (*Partido Independiente*, PI). On June 3, 2004, seven months after the delivery of signatures to Parliament, Uruguay's Election Board finally certified that CNDAV had met the requisite threshold to put the plebiscite measure to a vote. The following month, on July 20, 2004, Representative Pablo Mieres of the PI reached an accord with the Colorado Party and some members of the National Party to present an alternative CR proposal on

⁵¹⁴ REDES Amigos de la Tierra. 2003. "URUGUAY: Consulta Popular deroga privatización de empresa de combustibles." Email comunicación to listserv for Friends of the Earth-Latin America and the Caribbean. December 7.

⁵¹⁵ The aquifer is shared among Argentina, Brazil, Paraguay, and Uruguay. REDES- Amigos de la Tierra Comunicación, Foro Social del Agua <http://www.elistas.net/lista/inforedes/archivo/indice/441/msg/442/> (December 24, 2003).

water.⁵¹⁶ The alternative proposal had commonalities with CNDAV's proposal insofar as it declared water to be a human right, assigned social needs priority over economic interests, and required that water resource planning be environmentally sustainable. The key differences related to retaining the legal rights of the existing concessionaires and not foreclosing the option of future public-private partnerships. Mieres argued that prohibiting private financing of sanitation would relegate the 50 percent of the population in the interior which lacked access to sewerage to a continuation of that fate. He described a meeting with the CNDAV as cordial, but maintained that the group did not understand the difference between privatization and concessions. The newspaper *La Republica* claimed that private sector Uruguayan firms involved in the sale of water mounted a strong lobbying campaign in conjunction with bottlers and the logging sector, backing the PI's proposal.⁵¹⁷ However, the PI's proposal foundered because of a lack of wide support, and because on two occasions in July, it could not assemble the necessary quorum of members to convene a session of Parliament. Frente Amplio and members of Larrañaga's National Party fraction refused to enter the chambers of the General Assembly, denying the alternative measure's supporters the opportunity to vote before the end-of-month deadline for submitting the alternative proposal.⁵¹⁸ Adriana Marquisio believed that had the PI's proposal been approved, it would have spelled the death of CNDAV's reform measure.

⁵¹⁶ Espectador.com. July 21, 2004. "Comisión promotora de plebiscito sobre el agua lanza el último tramo de su campaña." <http://www.espectador.com/nota.php?idNota=22404> (December 3, 2007).

⁵¹⁷ La Republica (Uruguay) online. August 29, 2004. "Claves de la reforma constitucional en defense del agua y la vida." <http://www.larepublica.com.uy/lr3/larepublica/2004/08/29/politica/152224/claves-de-la-ref> (May 15, 2007)

⁵¹⁸ El Espectador. July 28, 2004. "Se frustró el proyecto alternativo de reforma sobre el agua." <http://www.cnscs.com.uy/softis/0/nv/1774> (October 27, 2004)

As previously described, in September 2004 the CNDAV and the IMF got into a public spat over whether or not the GOU had been forced, as a condition of the IMF's 2002 crisis-related loans, to pledge the country's mineral reserves and Guaraní aquifer as collateral.⁵¹⁹ The IMF counter-attacked in a letter to *La Republica* in which it denied that loans to the Uruguayan government were subject to "any guarantee to ensure payment."⁵²⁰ I could find no evidence supporting CNDAV's claim in publicly-available documents of the IMF, including the associated loan LOIs. CNDAV's literature on the LOI did not corroborate its own allegation.⁵²¹ In the several weeks before the campaign, the PI was quoted in several newspapers as saying that the IDB's President, Enrique Iglesias (a Uruguayan national) stated that if the CR won, "half the country [those currently without sanitation] would be left using cesspits." On September 22, 2004, the IDB met with officials from the Municipality of Montevideo (which provides sanitation to the city's residents), the Government's Office of Planning and Budget, and OSE, following which it issued a report stating that if the CR passed, Uruguay would not be able to fulfill the WSS goals it agreed to in 2000.⁵²² Those goals included the provision of over 750,000 new users with networked sanitation service by 2015, and 350,000 new users with potable water supply.⁵²³ The IDB warned that passage of the CR would jeopardize the country's ability to achieve the MDB goals for sanitation, since OSE would not

⁵¹⁹La Republica (Uruguay). August 29, 2004. "Claves de la Reforma Constitucional: en Defensa del Agua y la Vida." <http://www.larepublica.com.uy/larepublica/2004/08/29/politica/152224/claves-de-la-ref>. (May 15, 2007)

⁵²⁰ La Republica. September 5, 2004. "Polemica entre FMI y Comisión de Defensa del Agua."

⁵²¹ REDES-AT. September 7, 2004. "IMF questions Uruguayan Movement in Defense of Water."

⁵²² REDES-AT, online archives, citing an article in the weekly news magazine *Búsqueda* on September 30, 2004.

⁵²³ REDES-AT. September 30, 2004. "IDB warns Uruguay about 'the failure to comply with water and sanitation goals.'" Personal copy.

be able to finance expansion through debt capital.⁵²⁴ In terms of private sector opposition, CNDAV alleged that large landowning interests such as rice and eucalyptus tree cultivators, along with water bottlers, developed a “strong lobby against the proposed reform.”⁵²⁵ However, I observed little concerted opposition to the reform either in the media, on billboards, or at the many tables and booths distributing political literature in Montevideo during the two weeks prior to the election. (This was in contrast to visible scare tactics in the form of propaganda leveled against FA-EP and its largest political fraction, the former Tupamaros).⁵²⁶ FFOSE and CNDAV members that I interviewed at the Socialist Party headquarters agreed that there was no visible opposition to the “vote Yes” (*vota por Sí*) CR campaign.⁵²⁷

Nevertheless, CNDAV’s ramped-up mobilization between July 2004 and the October election bore fruit in terms of the number of Uruguayans who became cognizant of the plebiscite and inclined to support it. When the first national opinion poll on the CR was conducted in late July 2004, the leading national polling organization, FACTUM, found that half of registered voters had no knowledge of the water plebiscite.⁵²⁸ In a second national opinion poll conducted on October 17, 2004, the percentage of voters aware of the CR had risen to 69 percent, with 65 percent expressing support for the measure. During the critical last two months, the CR campaign focused on the interior of the country and soliciting transnational

⁵²⁴ Alfano, P. October, 22, 2004. “Sofismas con olor a pozo negro.” *Brecha* Montevideo, Uruguay.

⁵²⁵ Santos and Villareal, July 2006. “Uruguay: Direct Democracy in Defence of the Right to Water.” In *Reclaiming Public Water*, Transnational Institute and Corporate Europe Observatory, revised. <http://www.tni.org/books/wateruruguayrev.pdf?> (November 19, 2007).

⁵²⁶ Author’s observations; field work conducted October 18- November 1, 2004.

⁵²⁷ Interviews at Montevideo headquarters of *Partido Socialista*, October 21, 2004.

⁵²⁸ FACTUM, *Opción 2004*, “Plebiscito sobre el Agua,” poll conducted July 26, 2004. <http://www.factum.edu.uy/> (February 24, 2005)

support. In September, an “International conference in Defense of Water,” part of the Uruguay Social Forum, included participation from activists in Argentina, Bolivia, Brazil, Chile and Paraguay.⁵²⁹ Twelve days before the election Council of Canadians president and author Maude Barlow declared to an audience of several hundred in the Montevideo municipal auditorium: “On October 31 we are all Uruguayans.”⁵³⁰ On Saturday October 23, 2004, the CNDAV officially closed its campaign with a symbolic public rally which drew perhaps 200 people to the plaza across from the Legislative Palace. The event featured speakers, music and a procession of jinetes (horsemen) rallied by FFOSE, who had traveled from different parts of the interior of the country to the event. Six days before the election, CNDAV received an “international declaration of solidarity” from over 100 organizations and hundreds of individuals from 36 countries. The declaration stated that the CR “sets a fundamental precedent in the defense of water through its inclusion in a country’s constitution by means of direct democracy.”⁵³¹

On October 31, 2004, Uruguay’s Left made history, displacing the two traditional parties from the Presidency for the first time in the country’s 176-year history. The FA-EP won 50.5 percent of the vote, with voter participation at 89.6 percent.⁵³² A half-million people—one sixth of the country’s population-- filled the streets of the capital on election night in a sea of jubilation. October 31st also made history in another way: by making Uruguay the first country to constitutionally enshrine the provision of water and sanitation as the exclusive province of the public

⁵²⁹ The event was co-sponsored with Casa Bertolt Brecht and Sustainable Uruguay.

⁵³⁰ The author was in attendance.

⁵³¹ REDES-AT. October 26, 2004. “Water Referendum in Uruguay supported by more than 100 organizations from all over the world.” Personal copy.

⁵³² Altman and Castiglioni 2006, 147-191.

sphere. By a margin of almost two to one, 64.6 percent of Uruguayans voted for the “Yes” ballot to amend the Constitution.⁵³³ The plebiscite won a majority of votes in 16 out of 19 Departments in the country, 11 of which won with 60 percent or more of the popular vote, and eight of which won with close to 70 percent or more of the vote. In the days and weeks to follow, the water activist listservs positively pulsed with the news of CNDAV’s momentous victory. Indeed, on October 31st, as Maude Barlow had proclaimed, the activists “were all Uruguayans.”

⁵³³ Corte Electoral de Uruguay, *Elecciones 2004, Plebiscito por Agua, Resultados por departamento*. <http://www.uc.org.uy/de1004a.htm>. (November 26, 2004).

TABLE 5
A Chronology of the Uruguayan Movement in Opposition to Water Privatization: 1992- 2004

YEAR	PSP Policies/Programs	Anti-Privatization Activities in Uruguay	International/ Transnational Activities
1992	<ul style="list-style-type: none"> ♦ Public Enterprises Law, permitting privatization or partial privatization of various SOEs, goes into effect. ♦ First private concession in Maldonado, Aguas de la Costa, subsidiary of Aguas de Barcelona (Suez). 	<ul style="list-style-type: none"> ♦ Public Enterprises Law is partially repealed in December by an overwhelming majority, handing defeat to incumbent President Lacalle and his ruling party fraction. 	
1993	<ul style="list-style-type: none"> ♦ IDB loan of \$45 million for National Sanitation Program I. Includes support for decentralization of OSE operations and administration. 		
1996-1997	<ul style="list-style-type: none"> ♦ World Bank conducts analytical and advisory activities, and publishes two sector reports promoting reform and PSP in Uruguay's utilities. ♦ IDB approves \$153 million loan for sanitation in Montevideo and environs. Seeks to achieve full cost recovery via tariffs. Coordinates with World Bank work on sector restructuring. 	<ul style="list-style-type: none"> ♦ Local residents join with FFOSE members in fast-growing Ciudad de la Costa in a pilot project to supply water to neighborhoods lacking service. 	
2000	<ul style="list-style-type: none"> ♦ GOU awards 30 year concession contract for Maldonado Department to Basque company, Aguas de Bilbao, in January. Assumes control from OSE in June. ♦ World Bank approves \$27million loan to OSE; first tranche of 10 year, \$100 million loan. Includes PSP conditions, contemplating extension beyond Maldonado. 	<ul style="list-style-type: none"> ♦ With impetus from the water utility trade union FFOSE, Commission in Defense of Water and Sanitation in Costa de Oro y Pando (CDASCOP) formed in October. Claims eventual membership of 40 local organizations in the area. 	

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YEAR	PSP Policies/Programs	Anti-Privatization Activities in Uruguay	International/Transnational Activities
2001	<ul style="list-style-type: none"> ♦ World Bank approves a \$ 6 million utility services modernization and technical assistance loan to establish and strengthen regulatory structures and foster PSP. In the WSS sector, loan will support the preparation of medium-sized concessions. 	<ul style="list-style-type: none"> ♦ CDASCOP joins with FFOSE and other neighborhood organizations in the Colonia and Maldonado Departments to oppose the privatization of OSE. In August, FFOSE launches its campaign for the defense of water at Aguas Corrientes, site of the principal treatment plant for Montevideo. 	<ul style="list-style-type: none"> ♦ Members of CDASCOP and Friends of the Earth-Uruguay participate in the first World Social Forum in Porto Alegre, Brazil. Leader of FFOSE trade union describes the experience as transformative in her understanding of the global dimension to PSP.
2002	<ul style="list-style-type: none"> ♦ IMF approves increase of \$1.5 billion in Stand-By credit to Uruguay in wake of Argentine financial crisis. ♦ GOU signs "Letter of Intent" with IMF in June committing to new regulatory framework for water; new quality standards and controls to facilitate private investment; and tenders for bids for PSP in sewage treatment. ♦ First independent regulator for energy and WSS, URSEA, created in December, in accordance with IFIs' loan stipulations. 	<ul style="list-style-type: none"> ♦ CDASCOP, FFOSE, REDES-AT (Friends of the Earth, Uruguay), Sustainable Uruguay, and the neighborhood organization of Manantiales form a committee to plan a constitutional reform prohibiting privatization. ♦ National Commission in Defense of Water and Life (CNDALV) launched in October. Begins collection of signatures to put the reform on the 2004 Presidential ballot. 	<ul style="list-style-type: none"> ♦ CDASCOP, FFOSE, and REDES-AT (Friends of the Earth, Uruguay) participate in World Social Forum in Brazil. ♦ FFOSE and the campaign receive support from Public Services International (PSI) at their quintennial Congress in Ottawa in September. Coincides with launch of PSI's "Global Campaign for Quality Public Services."

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YEAR	PSP Policies/Programs	Anti-Privatization Activities in Uruguay	International/Transnational Activities
2003	January		<ul style="list-style-type: none"> ♦ Solidarity Tour with Public Citizen, Council of Canadians, Polaris Institute. Address conference in Uruguay. ♦ CNDAV at WSF III, Porto Alegre, Brazil
	March--April	<ul style="list-style-type: none"> ♦ World Bank approves \$151.5 million Public Services Structural Adjustment Loan (SAL) in wake of 2002 financial crisis. In WSS sector, key goal is to strengthen the framework for PSP through new sector law and management contract for Montevideo water supply. 	<ul style="list-style-type: none"> ♦ Press release by CNDAV/REDES-AT at Third World Water Forum in Kyoto, Japan, denouncing World Water Council and publicizing CNDAV's campaign.
	July--August	<ul style="list-style-type: none"> ♦ URAGUA plagued by operational and financial problems; GOU Comptroller of Concessions accuses it of breach of contract, Minister of Economy and Finance Atchugarry requests "orderly exit from the country." URAGUA announces it may abandon the concession. 	<ul style="list-style-type: none"> ♦ Red VIDA (Vigilancia Interamerica por Derecho al Agua) founded in San Salvador. Call for letters of solidarity for signature campaign in Uruguay.
	October	<ul style="list-style-type: none"> ♦ CNDAV and a "human chain" of hundreds march to Parliament to deliver 282,000 signatures (14 percent more than required) to put the constitutional reform measure on the 2004 ballot 	<ul style="list-style-type: none"> ♦ At rally during delivery of signatures to Parliament, CNDAV receives numerous letters of international support for its campaign, including from Bolivia, Red-VIDA, the U.S. and Canada.

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YEAR	PSP Policies/Programs	Anti-Privatization Activities in Uruguay	International/ Transnational Activities
	December	<ul style="list-style-type: none"> Referendum against privatizing ANCAP (fuels and combustibles utility) wins with 62 percent of the vote, garnering a majority even in the conservative cities of the country's interior. 	<ul style="list-style-type: none"> Uruguay and Argentina hold the first Joint Social Forum on Water
2004	February-March	<ul style="list-style-type: none"> The left-wing political party, Encuentro Progresista-Frente Amplio, formally joins the CNDAV CNDAV holds informational workshops throughout the country about the constitutional reform. 	<ul style="list-style-type: none"> Consumers International (LAC region) voices support for CNDAV campaign on International Consumers' Rights Day.
	June-July 2004	<ul style="list-style-type: none"> The Independent Party (PI) launches an alternative constitutional reform proposal which would declare water a human right, but continue to allow for PSP in the form of concessions. Argues that private financing crucial for closing the country's sanitation gap. FA-EP and National Party factions block ability of PI and supporters to gain a quorum in the National Assembly Election Board confirms in June that CNDAV submitted sufficient signatures to put the plebiscite to a vote concurrent with national elections in October. CNDAV launches final phase of campaign in July; plans workshops and rallies throughout the country. The leading national polling organization, FACTUM, conducts its first national opinion poll on the constitutional reform; finds that 50 percent have no knowledge of the water plebiscite. 	<ul style="list-style-type: none">

TABLE 5
A Chronology of the Uruguayan Movement in Opposition to Water Privatization: 1992- 2004

YEAR	PSP Policies/Programs	Anti-Privatization Activities in Uruguay	International/ Transnational Activities
September 2004	<ul style="list-style-type: none"> ♦ The IMF publicly challenges the CNDAV's campaign and arguments. It denies CNDAV's charge that debt repayment would be subject to a guarantee by the GOU that would pledge water (aquifers) and mineral resources as collateral for IMF loans. ♦ The IDB warns that passage of the Constitutional Reform will jeopardize Uruguay's ability to achieve the MDG goals for sanitation, since OSE can't finance expansion through debt capital. 	<ul style="list-style-type: none"> ♦ Solidarity tour in support of the "Yes" vote on the referendum held in various Departments in the interior. 	<ul style="list-style-type: none"> ♦ International Conference in the Defense of Water takes place within the Uruguay Social Forum. Includes representatives from Argentina, Bolivia, Brazil, Chile, and Paraguay.
October 2004	<ul style="list-style-type: none"> ♦ Opposition steps up lobbying in last throes of campaign, warning that a vote in favor will condemn the countryside to sanitation by "cesspools." 	<ul style="list-style-type: none"> ♦ In second national opinion poll on the water plebiscite conducted Oct. 17, FACTUM finds that 69 percent are aware of the proposed reform, and 65 percent (+/-) are likely to support it. ♦ On October 31st, the constitutional reform wins with 64.6 percent of the vote, representing victories in 16 of 19 Departments. FA-EP wins with 50.5 percent of the vote. 	<ul style="list-style-type: none"> ♦ Author Maude Barlow (Blue Gold) from the Council of Canadians addressed hundreds in Montevideo in support of the reform ♦ CNDAV receives Declaration of support for constitutional reform from over 100 NGOs/CSOs in 36 countries

PART TWO

6.5. Neoliberal Policies and WSS Provision in Uruguay, 1992-2004

Even Well-Performing Public Utilities (Apparently) Need PSP: The IFIs Push, the Citizens Push Back, and the State Minds the Treasury

As I discussed in Section 6.2, Uruguayan voters dealt a resounding blow in 1992 to President Lacalle's neoliberal reform program by partially repealing the Public Enterprises Law. If it had been enacted, that law would have constituted a radical departure from the history of statism that Uruguayans had embraced throughout the 20th century. The rejection also implicated the IMF, which was persuaded by Lacalle to enter into a Stand-by Arrangement for over \$150 million with conditions requiring Uruguay to begin privatizing its public sector. Although OSE was not one of the six public enterprises slated for de-monopolization or privatization in the 1992 law, two days before the vote on the referendum, the directors of OSE began to conceive of a role for PSP in water management. On December 11, 1992 they initiated a process which one year later, culminated in the first private concession in Maldonado province, Aguas de la Costa.⁵³⁴ Bergara, et. al. point out that this concession did not require legal approval and was awarded through administrative channels.

World Bank projects involving private participation in infrastructure in the Latin America and Caribbean region increased annually between 1991 to 1997, with

⁵³⁴ Santos and Valdomir 2006. In 1997, French MNC Suez bought 60 percent of the shares, gaining a controlling interest.

one project in 1991 and 22 projects in 1997.⁵³⁵ Projects with PSP continued strong until the Argentine financial crisis of 2002. This change was reflected in the WSS loan portfolios of the World Bank and the Inter-American Development Bank (IDB) in Uruguay, and in the conditions of IMF Stand-by Arrangements. Both the World Bank and the IDB were significant lenders to the Uruguayan WSS sector between 1993-2004, but the push to open WSS services to PSP was reflected and articulated more explicitly in the form of conditions in World Bank project and policy (i.e., structural adjustment) loans. Table 5 outlines the major lending operations during this period. The section below describes key government and IFI initiatives to reform the WSS sector, and the reactions of civil society organizations that formed the organizational base of CNDAV.

A. The Push for Private Sector Participation Begins: 1996-2000

In January 1996 President Sanguinetti (of the Colorado Party) submitted a budget authorizing OSE, with prior approval of the Executive, to grant concessions for WSS in the interior of the country.⁵³⁶ During this same year the World Bank sent a mission to Uruguay to “open a dialogue” with the GOU on public service reform, followed in the ensuing years by analytical and advisory work. That work culminated in the preparation of a report entitled *Uruguay: Towards a New Role for the State in Uruguay's Utilities*, whose main purpose was to maximize public-private joint

⁵³⁵ World Bank. 2009. Private Participation in Infrastructure Database, Regional Snapshot: Latin America and the Caribbean.

⁵³⁶ Law No. 16736 of January 5, 1996.

ventures in utilities.⁵³⁷ The report argued that Uruguay's public utilities were not as cost-effective as they should be compared with best international practice; were hobbled by poor performance incentives, complex and costly cross-subsidy schemes, and legal restrictions on contracting and staffing; and were constrained by the role they played as an important source of revenue for the Treasury. With respect to this last point the Bank notes that Uruguayan utilities made a net contribution to public sector revenue of about two percent of GDP, rendering them an important instrument of fiscal policy. This has contributed to resistance to privatization across political lines, and as Antonio Estache remarked, raises a serious question of whether such utilities should be candidates for privatization. In a footnote to the report, the Bank acknowledges that it *is* appropriate for governments to require a return on investment on public enterprises and to impose taxation on public as well as private companies, but "it is not clear that this approach is the best" with respect to Uruguay's utilities. Yet the Bank fails to say why, and what approach might replace it. Regarding OSE, the report notes that its service coverage and quality were good when compared to the region, but that labor productivity was poor, and OSE's multiple conflicting roles as regulator, operator, and grantor of private concessions "thwarted competition by discriminating in favor of its own operations when allocating constrained public resources."⁵³⁸ But the Bank characterized OSE as (now) recognizing the need to separate regulation, policy, and operation; and cited its intention to foster greater efficiency through decentralizing operations to four regional business units and

⁵³⁷ World Bank. June 16, 1997. *Uruguay: Towards a New Role for the State in Uruguay's Utilities*, Infrastructure Division, Country Department I, Latin America and the Caribbean Region, Report No. 16154-UY.

⁵³⁸ World Bank. June 16, 1997, 10.

increasing PSP through new concessions and outsourcing. The Bank emphasized that the natural monopoly characteristics of WSS would preclude competition “*in the market*” (as between rival firms competing directly to supply consumers), but that OSE could foster competition “*for the market*,” by awarding concessions through a competitive bidding process. This process would putatively engage “firms offering the most advantageous terms to consumers,” who would be subject to a re-bid process at the end of the franchise period. At the same time, the Bank’s report acknowledged that the Aguas de la Costa concession bidding process in 1993 was “flawed,” characterized by weakness and arbitrariness in the ratings of both the technical and economic proposals.⁵³⁹

In 1995, a year before the World Bank’s report on reforming Uruguay’s utilities, the IDB Group unveiled its grand strategy in support of private infrastructure in Latin America and the Caribbean.⁵⁴⁰ That report highlighted the need to focus on new sources of private financing, such as the development of domestic financial markets, loan guarantees, and political risk insurance. In a follow-on report in 1996 reprising its activities in support of PSP in infrastructure, the IDB noted that since its founding in 1959, infrastructure has been the largest component of its loan portfolio, traditionally focused on the public sector. With the creation of the Inter-American Investment Corporation in 1989, the Multilateral Investment Fund in 1993, and the Private Sector Department in 1994, the focus had shifted to operations designed to encourage PSP. At the same time, the IDB acknowledged that the private sector was

⁵³⁹ World Bank. June 16, 1997, Annex E, p.38.

⁵⁴⁰ Inter-American Development Bank. April 2006. *Private Infrastructure: Support from the Inter-American Development Bank Group 1990-2005*, Sustainable Development Department, Infrastructure and Financial Markets Division, p.2.

not “a universal solution,” and that “different countries and sectors may require different solutions at different points in time.”⁵⁴¹

During this same period, the IDB made two substantial WSS sector loans to Uruguay: a \$45 million loan in 1993 for the first phase of a National Potable Water and Sewerage Program, and in 1996, a \$153 million loan to the municipality of Montevideo for sanitation. Compared to subsequent World Bank loans, these loans were “soft” in their approach to integrating PSP. The 1993 loan to OSE did not have a PSP component, but provided support for the decentralization of the administration and operations of OSE—often viewed as a precursor to PSP. The 1996 loan to the municipality of Montevideo (*Intendencia Municipal de Montevideo, IMM*), which focused on construction, rehabilitation and expansion of sewer and storm drainage systems, had no direct requirement for PSP conditionality, but stated more equivocally that “where shown to be warranted,” the municipality should outsource the operation and maintenance of the sewer systems included in the program...including contracting out to private firms and cooperatives.”⁵⁴² It also required the municipality to set up a business cost accounting system with the goal of reaching full-cost recovery in sanitation tariffs. Nevertheless, as current Central Bank president Mario Bergara told me in a 2004 interview (when he was then director of URSEC, the telecommunications regulatory agency), sanitation services were, and always had been, deficit-generating, and would need to be cross-subsidized.⁵⁴³

⁵⁴¹ Inter-American Development Bank. April 2006, 2.

⁵⁴² Inter-American Development Bank *Metropolitan Montevideo Sanitation Program*, Stage III, UR-0089, Executive Summary, p.8.

⁵⁴³ Interview with Mario Bergara, Montevideo, Uruguay, October 27, 2004.

Two interesting facts should be noted with respect to the IDB loan to the IMM. First, this loan was made to the leftist Frente Amplio municipal government which won local elections in Montevideo in 1989 and again in 1994-- with a plurality of 44 percent of the votes. Second, the left-wing municipal government put forth a program described as “radically democratic,” a centerpiece of which was administrative, social, and political decentralization to participatory neighborhood councils.⁵⁴⁴ Ironically, and in contrast to the IFI’s push for decentralizing state enterprises like OSE, decentralization of governance in Montevideo was a specific leftist response to the neoliberal programs of the Lacalle and Sanguinetti regimes at the national level. As discussed in Section 6.6.1, the period since the passage of the CR has exposed differences within CNDAV regarding whether or not decentralization of OSE operations represents a progressive or desirable move.

CNDAV activists point to 1999 as the year when the World Bank began to apply pressure on OSE in loan negotiations to incorporate PSP in WSS provision, and the Bank’s OSE Modernization and Systems Rehabilitation Project (MSRP) loan, approved in June 2000, underscored the priority now given to PSP in line with Uruguay’s five-year Country Assistance Strategy (CAS):

“The new [CAS] presented to the Bank with this project has identified reform of public enterprises as one of the main development themes in Uruguay over the next few years...The Program is in line with the Government’s vision for reform in the sector. Over the medium and long-term this includes an increasingly open and competitive water sector....Beginning with the Maldonado concession, and continuing with other areas in which outside financing is critical to meeting sector investment needs, new private operators will be brought in over the short and medium term.”⁵⁴⁵

⁵⁴⁴ Chavez, Daniel. “Decentralization and Participatory Urban Management in Montevideo.” <http://www.ucm.es/info/femp/red/articulos/montevideo.doc> (January 22, 2009).

⁵⁴⁵ World Bank. June 2000, 3-5.

Given the “political constraints to *full-fledged privatization*,” the project loan was instead focused on a “re-definition of public sector roles in infrastructure services, and the goal of state reform.”⁵⁴⁶ Two broad goals spelled out in the PAD for the project were for OSE to undertake demand-driven investments in sewerage and to deepen decentralization. The PAD comments that decentralization was at the time politically infeasible because of GOU reluctance, a shortage of technical capacity in the regions, and a lack of transparency in the allocation of costs and subsidies. It is very likely that some of the resistance to decentralization from the ruling parties had to do with a reliance on patronage positions in the national OSE office. Bergara points out that representation on the Boards of public service enterprises has historically been political, with co-participation between the *Colorados* and *Blancos*, each of which had rewarded political loyalty with patronage.⁵⁴⁷ When I visited OSE’s headquarters in Montevideo, members of the trade union FFOSE told me that at least one-fourth of the management of OSE was appointed through patronage—most with no prior experience in water or sanitation.⁵⁴⁸ The President of URSEA, the newly-created regulatory agency for the energy and water sector utilities (discussed below), told me that there were 24 positions requiring specialized management expertise in OSE, yet there were 72 managers.⁵⁴⁹ A World Bank official confirmed to me that among public service utilities, OSE has historically been more closely tied to patronage.⁵⁵⁰

⁵⁴⁶ World Bank. June 2000, 9-11.

⁵⁴⁷ Bergara et al., 27.

⁵⁴⁸ Interviews with Lourdes Martinez and other FFOSE members, October 21, 2004.

⁵⁴⁹ Interview with Carlos Costa, President of URSEA, October 29, 2004.

⁵⁵⁰ Interview 1.

The analysis contained in the OSE MSRP points to contradictions in the World Bank's own internal assessment of OSE and the WSS sector. The Bank's analysis of OSE's tariff structure for water and sanitation provides an example of this, leading the reader to wonder how strong a rationale really existed for requiring the introduction of PSP into the sector. While consistently criticizing OSE's average WSS tariffs as among the "highest in Latin America... and the world," the PAD simultaneously praised OSE for its "well-intentioned efforts to achieve full cost recovery" and noted that:

Despite major inefficiencies in the collection and use of funds, *these tariffs are high enough to cover operation and maintenance costs, to ensure medium-term profitability, and to generate the revenues required to support commercial borrowing for an ambitious investment program* [my emphasis]... If cost reduction improvements are achieved, OSE's expected profitability would improve to the point where the company could even support a tariff reduction...[OSE] has made steady performance improvements over the past 15 years...overall levels of water and sanitation service coverage are still high by regional standards...*Though improvements have occurred slowly in the public utility, OSE did increase annual investment ten-fold from 1987 to 1997 while increasing labor productivity from 12.7 employees per 1000 connections to 7.9 employees per 1000 connections over the same period* [my emphasis].⁵⁵¹

The Bank acknowledges that most Uruguayans are happy with OSE's services, and that the public accepts OSE's "relatively high tariffs more a result of an emphasis on social equality than a consequence of OSE's inefficient monopoly operation." It makes recommendations for rationalizing the tariff structure, but these are more on the order of streamlining rather than calling for a fundamental overhaul. Notably, while the Bank castigates OSE for its high tariffs, it concomitantly lauds the utility for tariffs high enough to recover full costs and support investment, exactly the

⁵⁵¹ World Bank. June 2000, 23-29.

prescription the Bank promotes in its global policies to reform the WSS sector! In short, the OSE MSRP loan leaves the impression that OSE, as a public utility, had already traveled a good part of the of the distance towards achieving the World Bank's vision of a WSS service provider, albeit one with room for efficiency improvements and especially, improved sanitation coverage in the interior provinces outside of Montevideo. This was and is certainly the area where OSE and Uruguay has lagged significantly, and a gap which the World Bank and IDB loans were seeking to close. But the contradictions in the MSRP project appraisal highlight the tensions described in Chapter 4 in respect of the Bank's internal organizational culture. OSE, it turns out, was actually a well performing public utility *before* the MDBs stepped in with prescriptions to introduce PSP.

B. Stepped-up Pressure During the Economic Crisis: 2002-2003

As discussed in Section 6.3, the economic and financial crisis that crippled Uruguay in 2002 led the IMF to extend almost three billion dollars in stand-by credits (loans) to the country during that year. By August 2002, the total package extended by the IMF, IDB, and World Bank reached \$3.9 billion, in what the World Bank describes as “one of the largest [multilateral rescue] efforts as a percentage of GDP ever carried out.”⁵⁵² The combined assistance package was tied to “deep structural reforms, including drastic expenditure restraint and fiscal adjustment.”⁵⁵³ In April

⁵⁵² World Bank. May 2005. *Country Assistance Strategy for the Oriental Republic of Uruguay 2005-2010*.

⁵⁵³ World Bank. March 25, 2003. Program Document for a Proposed *Public Services and Social Sectors Structural Adjustment Loan in the amount of U.S. \$151.52 million and Special SAL in the amount of US\$ 102.02 million to the Oriental Republic of Uruguay*.” Finance, Private Sector, and Infrastructure, Latin America and the Caribbean Region. Report No. 25012-UR, 3.

2003, after several months of preparation, the World Bank approved two structural adjustment loans (SALs) to Uruguay for a total of \$250 million. The larger of these SALs, the \$150 million *Public Services and Social Sectors Structural Adjustment Loan*, was intended to improve Uruguay's pallid economic health by increasing the efficiency of the public sector and creating a "more market-friendly environment." The Bank explained that the loan met the criteria for an SAL through its focus on structural reform of the public sector:

"the monopoly service provision by the public utilities and weak regulatory frameworks have historically contributed to service lags and high costs, adversely affecting competitiveness, and bringing additional inflexibility to the economy. The loans support the Government's efforts to open areas currently dominated by the State to the private sector, reducing pressures on public expenditures and facilitating a private-sector led economic recovery."⁵⁵⁴

Together, the IMF's June 2002 stand-by credit and the 2003 World Bank SAL constituted the strongest conditions to that date placed on the GOU to open up the WSS sector to PSP. The key reforms required of the GOU in each loan document, which were coordinated in concertation among the IFIs,⁵⁵⁵ called for changing the legal and regulatory frameworks for WSS to facilitate PSP; restructuring and reducing OSE's scope of authority through creating an independent multi-sector regulator; and passing a new sector law for WSS.

. The commitment documents signed by the GOU in exchange for the IMF loans (the Letter of Intent, Memorandum of Economic Policies, and Technical Memorandum of Understanding) committed the Government to submit a new regulatory framework for WSS to the legislative branch in September 2002; to issue a

⁵⁵⁴ World Bank. March 2003, 39.

⁵⁵⁵ World Bank. March 2003.

Presidential Decree by December 2002 to facilitate private investment; and to invite bids for PSP in Montevideo for service improvements and sewage treatment.⁵⁵⁶

Although these were not tantamount to “hard” conditionality imposed by the IMF, they did represent “upping the ante,” especially in terms of consolidating a legal and regulatory framework for PSP. This was evidenced by the creation of the multi-sector regulatory agency for electricity, gas, fuel, and water and sanitation, URSEA (*Unidad Reguladora de Servicios de Energía y Agua*), in December 2002, in accordance with the timeline specified in the IMF LOI. In addition to its stated objectives to protect consumers’ and users’ rights through “quality assurance and reasonable prices” for public services, the law creating URSEA explicitly included the “promotion of free competition in service provision,” “free choice for consumers among diverse providers,” and the “application of tariffs which reflect economic costs.”⁵⁵⁷

The World Bank’s SAL made explicit reference to “altering the balance of power in Uruguay’s water sector” through two pieces of legislation: the creation of URSEA and the passage of a new Water and Sanitation Sector Law, which would give the central government title over WSS services and limit the ability of OSE to control new entrants. The SAL set two other conditions in the loan: (1) the Office of Planning and Budget under the Executive Branch would set uniform accounting standards for the water sector, and (2) the GOU would look into letting a contract in Montevideo to reduce unaccounted-for-water (UFW). Incremental billings from

⁵⁵⁶ International Monetary Fund. June 18, 2002, 6-8.

⁵⁵⁷ Republic of Uruguay, Legislative Chamber, Law No. 17.598. December 24, 2002, Article 2. <http://www.ursea.gub.uy/carga.php?l=11&p=http://www.ursea.gub.uy:8080/web/mnnormativo.nsf/Leyes/Web?OpenView> (January 5, 2009)

UFW would finance sewerage expansions in the interior (note that the Bank here implicit agrees to the necessity of cross-subsidization of sewerage investment).⁵⁵⁸

As in the previous OSE MSRP loan, the World Bank stressed that price, not coverage or quality (except for sanitation), was the main problem with Uruguay's utilities. The Bank makes scant reference in the SAL to the then-extant private concessions, especially the larger URAGUA, which was serving the lucrative, tourism-based Department of Maldonado. In 2004 Bergara wrote that "regulatory design has been notably deficient in the water sector... and this became evident during the opaque process of renegotiation of the concession contracts after the crisis in early 2002."⁵⁵⁹

Bergara told me in an interview that both URAGUA and Aguas de la Costa were "bad contracts, bad concessions—inconsistent and not well done. The contracts have been renegotiated every two to three years."⁵⁶⁰ In the program document for the Public Services SAL, the Bank parenthetically states that neither OSE nor the private WSS providers had been required to "report customer service indicators in a standardized format, so that consumers have been left in the dark" about the relative performance of the private and public operators. It acknowledges that greater accountability in operational and financial performance is needed for both OSE and the private operators.

FFOSE and CNDAV were opposed to the creation of URSEA for several reasons, not the least of which was that they viewed it as being primarily charged with rationalizing and deregulating the state, and preparing bid tenders for PSP

⁵⁵⁸ World Bank. March 2003, 33.

⁵⁵⁹ Bergara, Mario. October 2004. "Efficiency, Equity and Affordability in Infrastructure." Personal copy from the author, then Director of URSEC, the regulatory agency for telecommunications.

⁵⁶⁰ Interview with Mario Bergara, October 27, 2004.

concessions. FFOSE Vice-President Adriana Marquisio told me that URSEA's placement in the Office of Planning and Budget under the executive branch was a calculated move to shield the regulatory agency from any control by the legislative branch.⁵⁶¹ In stark contrast, the World Bank's Public Services SAL lamented the fact that URSEA "can only recommend tariff changes, while the ultimate say on tariffs remains with the executive branch, as established in the Constitution."⁵⁶² Moreover, Carlos Costa, the first appointed president of URSEA, told me in a 2004 interview that the agency's powers were diluted from the time of its creation. It had overlapping competencies and competing legal jurisdiction with other public entities, such as OSE and the Ministry of Housing, Land Management, and Environment (MVOTMA, in Spanish).⁵⁶³ In the case of WSS, OSE retained the role of *de facto* regulator of URAGUA through its own Commission for Comptroller of Concessions (*Comisión de Contralor de Concesiones*), and was responsible for ensuring that URAGUA fulfilled the conditions of its contract with the public utility, which awarded the concession. The World Bank's SAL envisioned that this regulatory responsibility would shift to URSEA, but that had not transpired in the year and a half following the April 2003 loan. Bergara attributes this to a reluctance on the part of the executive branch to cede power to independent regulatory authorities, especially since tariff-setting was an important means of regulating transfers to the GOU's fiscal coffers. However, OSE was the one public utility that did not make net positive transfers to the treasury (it generally only broke even).⁵⁶⁴ In short, URSEA never

⁵⁶¹ Interview with Adriana Marquisio, Montevideo, Uruguay. October 28, 2004.

⁵⁶² World Bank. March 2003, 14.

⁵⁶³ Interview with Carlos Costa, President of URSEA, October 29, 2004.

⁵⁶⁴ Bergara. October 2004.

acquired the mandate to become the PSP broker that the activists feared, seemingly because the ruling neoliberal government in 2003-2004 was unwilling to cede control over an important source of fiscal revenue to an autonomous entity. With respect to regulation on behalf of consumers and users, it is not clear how much of URSEA's failure to do this in its first two years of operation was attributable to its lack of authority, and how much to a failure in implementing its mandate. Ana Dominguez and Marcel Achkar, two members of the UDELAR faculty who were also activists in CNDAV, pointed out to me that they were unaware of any complaint procedures that the public could avail themselves of under URSEA. In my conversation with URSEA President Carlos Costa, it did not appear clear that a mechanism for lodging complaints had yet been put in place.⁵⁶⁵ URSEA's lack of authority to regulate the private concessions meant that it was OSE and the Minister of the Economy which found URAGUA in breach of contract in 2003. They found that it had failed to invest in sanitation infrastructure improvements in Maldonado in accordance with an agreed timetable, and was in arrears on payment of its monthly taxes to the State.⁵⁶⁶ Achkar and Dominguez told me that OSE had to step in when URAGUA was unable to live up to its contractual obligations, such as when a water main burst in 2001, which caused OSE \$30 million in losses it would otherwise have not incurred.⁵⁶⁷

Beyond the debate over what kind of regulator URSEA was or could be, several weeks after CNDAV's victory in the constitutional reform campaign FFOSE

⁵⁶⁵ Interview with Ana Dominguez and Marcel Achkar, Faculty of Sciences and Engineering, University of the Republic, October 29, 2004.; Interview with Carlos Costa, President of URSEA, October 29, 2004.

⁵⁶⁶ El País-Uruguay online. July 30, 2003. "El gobierno decidió ponerle fin a la concesión de la empresa Uragua." http://www.elpais.com.uy/03/07/30/pnacio_51659.asp (January 13, 2008).

⁵⁶⁷ Interview with Ana Dominguez and Marcel Achkar, Faculty of Sciences and Engineering, University of the Republic, October 29, 2004

Vice-President Adriana Marquisio leveled a somewhat surprising and more fundamental critique at regulation. In a press interview with an international trade union federation in Montevideo Marquisio stated:

We [FFOSE trade unionists] are very skeptical of regulatory frameworks, while acknowledging that in certain cases they can function very well. We believe that the best control and guaranty of an efficient, transparent, and financially accountable state is the citizenry itself. When given the opportunity to participate, civil society knows how to regulate the expenditure of its own [public] funds.⁵⁶⁸

This view probably sprang more from Marquisio's role as a leader of a public sector union and concern over how a regulator might infringe on OSE's autonomy, than reflected a consensus position of CNDAV about regulation. Yet it was a statement that foreshadowed one of the major challenges CNDAV has faced in the post-reform period: whether CNDAV could begin to operationalize its own vision of grassroots involvement in the day-to-day decisions affecting WSS provision. Even in a country as small, homogeneous, and relatively well-off as Uruguay, would proponents of "deep participation" in decision-making about WSS provision be able to demonstrate this was feasible and sustainable? The years since the passage of the Constitutional Reform have revealed this to be a challenge more difficult to effectuate in practice than in rhetoric, and a source of angst for the future direction of the smaller, but still functioning, CNDAV.

⁵⁶⁸ Interview with Adriana Marquisio by Rubén Yizmeián, Rel-UITA. "The Most Essential Element is the Involvement of the People." ("Lo esencial es que la gente se involucre") Author's translation from the Spanish. <http://www.rel-uita.org/agricultura/ambiente/agua/uruguay-2004/con-adriana-marquisio.htm>. (February 28, 2005).

PART THREE

6.6. Challenges in the Post-Reform Period, 2004-2009

6.6.1. Fissures on the Left

A. CNDAV versus Frente Amplio

One of the first major challenges confronting the CNDAV occurred several weeks after the October 31st victory. In a move not wholly unanticipated by the leadership of the Comisión, but that was still considered a setback, the victorious FA-EP dropped out of the CNDAV. At issue was whether or not the constitutional amendment should be interpreted as having retroactive effect, a position that the Government-elect was against, calling instead for allowing the existing concessions to remain in operation until the expiration of their contracts. Not surprisingly, this position was strenuously opposed by the other members of the CNDAV. The motivation for Frente Amplio's stance was first of all pecuniary, out of concern that the incoming Government might be liable to the two main private concessions for expropriation. This could saddle it with compensation that could run into the tens of millions of dollars. REDES' Alberto Villareal told me that FA-EP was really worried that Aguas de la Costa might take Uruguay to an international tribunal like the ICSID under the bilateral BIT between France and Uruguay (Aguas de la Costa was a subsidiary of the French MNC Suez).⁵⁶⁹ Unlike in the case of URAGUA where the GOU had a basis for arguing that the company had breached its contract,

⁵⁶⁹ Phone conversation with Alberto Villareal in Uruguay, November 28, 2004.

there was far less confidence that the Government could prevail in an international arbitral proceeding with Aguas de la Costa.

Second, FA-EP's position reflected the concern that the new constitutional amendment would send the wrong signal to investors. The more centrist fractions of the political coalition, including the one to which the incoming Minister of Economy and Finance, Danilo Astori, belonged (*Asemblea Uruguay*), had a strong aversion in particular to "Special Disposition Z" which prohibited compensation to the expropriated concessions for the present value of lost future earnings. In the months before the general election Tabaré Vasquez and Astori had traveled to Spain with a delegation of Uruguayan business representatives to assure investors that "contracts would be respected and that [investment] rules would be clear and permanent."⁵⁷⁰ Astori was well liked by Wall Street, and his appointment was taken as a reassuring signal by foreign investors and governments who otherwise might have felt jumpy about Uruguay's new left-wing government.

When the new FA-EP Government came into power in March 2005, there were signals that it would move to oust URAGUA for breach of contract with OSE re-assuming the provision of WSS in the Department of Maldonado. The Undersecretary of MVOTMA, under which OSE was subsumed, said that URAGUA was using the CR as a pretext, and that it had in fact wanted to get out of its contract since the 2002 financial crisis.⁵⁷¹ Nevertheless, on May 20, 2005 the FA-EP government issued a presidential decree declaring that the CR could not legally be

⁵⁷⁰ La Republica (Uruguay) online. "November 24, 2004. Promotores de la Reforma dijeron que el FA apoyó la iniciativa con 'ligereza'." <http://www.larepublica.com.uy/politica/160692-promotores-de-la-reforma-dijeron-que-el-fa-apoyo-la-iniciativa-conligereza> (November 26, 2004).

⁵⁷¹ Espectador.com, online., March 10, 2005. <http://www.espectador.com/nota.php?idNota=38108> (March 11, 2005).

interpreted as having retroactive effect, and that doing so would damage Uruguay's legal framework for the respect of contracts. The Decree was signed by all the new Cabinet Ministers, including the popular José Mujica, leader of the *Movimiento de Participación Popular*, the former Tupamaro-aligned fraction of the FA-EP (which garnered the largest bloc of votes in the 2004 national elections). On the very next day, leaders of the CNDAV met in a plenary session in Maldonado and issued a declaration declaring that they rejected the Government's Decree and would appeal it in the courts.⁵⁷² Since the GOU had already commenced actions against URAGUA, the concern centered around Aguas de la Costa, with CNDAV arguing that this Decree would consolidate the presence of Aguas de la Costa until 2018. Under the banner of several slogans-- "The popular will shall not be interpreted, it shall be fulfilled," "With the Constitution Everything, Without It Nothing," and "Water Belongs to All"-- CNDAV promised to mobilize nationally and demanded "strict adherence to the Constitution." It continued to invoke the same arguments against Aguas de la Costa that it had raised during the campaign: that hundreds of families were still excluded from access to water through their inability to pay connection costs and tariffs that were many multiples higher than those of OSE's, that communal standpipes (*canillas populares*) had been dismantled, and that the company wreaked environmental damage through dessicating the *Laguna Blanca*, from which it drew water in the 1990s.⁵⁷³ One month later, on June 22, 2005, President Tabaré Vázquez met with the Directors of the Uruguayan National Union Federation, the

⁵⁷²La Red VIDA. May 22, 2005. Noticias, "La CNDAV rechaza decreto del Presidente Vázquez." http://www.laredvida.org/noticiasdestacados.php?tipo_noticia=Noticia&cod_noticia=65 (January 23, 2009).

⁵⁷³Santos and Villareal. July 2006. <http://www.tni.org/books/wateruruguayrev.pdf?> (January 31, 2009).

PIT-CNT, which FFOSE is affiliated. Following that meeting, Adriana Marquisio held a press conference and announced that the FA-EP government had explained its rationale for the decree in terms of avoiding future claims from the two private concessions, whether through judicial action at the national level, or in international tribunals. Appearing mollified, Marquisio quoted the President as indicating that that the GOU wanted to “completely comply with the CR,” and was looking into the possibility of taking back Aguas de la Costa.

Transnational activist networking next played a role in helping to speed this process along. A global campaign against Suez was launched at its annual shareholders’ meeting in Paris in May 2005, hosted by French foundations and NGOs, including Friends of the Earth-France, Association for a Global Water Contract, and Frances Libertés, a foundation started by Danielle Mitterand, widow of the former French President. Boston Common Assets, a Suez shareholder, used its proxy at Suez’s annual meeting to present a declaration of grievances from civil society groups in Argentina, Bolivia, Chile, the Philippines, and Uruguay.⁵⁷⁴ In September 2005, France Libertés organized a delegation to tour Argentina, Bolivia, Brazil and Uruguay to “promote the concept of water as a public good and to speak out against the privatization of water and sanitation countries.”⁵⁷⁵ The delegation, which included Mitterand, and the General Director of Aguas de Paris, among others, went to Uruguay to “urge the Uruguayan Government to enforce the Constitutional reform... and expel Suez from the country.” Ms. Mitterand stated that “a model born

⁵⁷⁴ Pambazuka News-online. June 13, 2005. “Stop Suez Campaign Update,” <http://www.pambazuka.org/en/category/advocacy/28546/print> (January 30, 2009).

⁵⁷⁵ Pierri, Raúl. September 23, 2005. “South America: Blocking the Wave of Privatisation of Water.” InterPress Service News Agency, Montevideo, Uruguay. <http://www.ipsnews.net/news.asp?idnews=30402> (September 28, 2005).

in France has proved to be ineffective and unfair; it only benefits those who can afford to pay.”⁵⁷⁶ The delegation met with Uruguayan Vice President Nin Novoa and the Mayor of Montevideo, and in a meeting with OSE, the latter announced that it was analyzing the possibility of renegotiating the contract with Aguas de la Costa. Less than two weeks later, on October 8, 2005, OSE and URAGUA officially signed the agreement transferring the Maldonado utility back to the State. Members of CNDAV departed by caravan from Montevideo to Maldonado where they staged a jubilant celebration as part of the signing ceremony.

On February 20, 2006, the GOU announced that it would buy 60 percent of the shares in Aguas de la Costa from Aguas de Barcelona, the controlling Suez subsidiary, for \$3.4 million. The remaining 40 percent of shares would be retained by Uruguayan shareholders in Suez, who refused to sell. CNDAV was displeased with this outcome, arguing that this public-private partnership was unconstitutional.⁵⁷⁷ Nevertheless, they did not prevail.

B. Participation from Above or Below?

As described above, CNDAV often found itself in an antagonistic relationship to the new FA-EP Government during its first year in office. This was transformed into a more complex relationship after the Government created the National Water and Sanitation Directorate (*Dirección Nacional de Aguas y Saneamiento, DINASA*)

⁵⁷⁶ REDES-AT Comunicación. September 28, 2005. “French Municipal Authorities ask Uruguayan Government to Expel Suez,” “Water-Warriors” listserv communication.

⁵⁷⁷ Santos and Villareal. July 2006, 4.

in December 2005.⁵⁷⁸ Situated under MVOTMA, DINASA was created to implement the CR through a National Plan of Water Resources Management, a National Potable Water and Sanitation Policy, and a new water sector law intended to rationalize and streamline the multiple government agencies which had jurisdiction over WSS.⁵⁷⁹ DINASA was charged with formulating policies for the administration and protection of water resources, including ensuring universal access, and establishing criteria to prioritize WSS improvements, services, finance, and investments. Article 331 of the law establishing DINASA further created a multistakeholder consultative body for civil society participation, the Advisory Commission on Water and Sanitation (*Comisión Asesora de Agua y Saneamiento, COASAS*). The law specifies that COASAS should “incorporate the vision of distinct societal actors in the formulation of sectoral policies.” It prescribes that members be drawn from CSOs and consumer groups from the public and private spheres, as well as from the executive branch, the National Congress of Mayors, and the management of OSE, URSEA, and the University of the Republic (UDELARR). As of 2009, COASAS had created four working groups (Water Resources, Water and Sanitation Services, Participation, and Norms/Regulations) that were meeting approximately five times a year, in addition to an annual plenary session. It describes its governance structure as decision-making through consensus, when possible, and otherwise, by majority vote. In an attempt to decentralize participation, COASAS has held occasional working group meetings in the interior cities of Treinta y Tres and Salto,

⁵⁷⁸ DINASA was created under Law No. 17.930 of the National Budget for the period 2005-2009, December 19, 2005.
http://www.mvotma.gub.uy/dinasa/index.php?option=com_content&task=view&id=96&Itemid=60
 (February 2, 2009).

⁵⁷⁹ Taks 2008,17-22.

with the expectation that these might also provide guidance on how to institutionalize civil society participation at the water basin level—an objective explicitly articulated in the amendment to Article 47 of the Constitution (“Users and civil society should participate in all instances of planning, management and control of water resources, with water basins constituting the basic unit for [such].”⁵⁸⁰ It bears mention that the World Bank TTL I interviewed was not aware of the creation of COASAS in the new law.⁵⁸¹

The CNDAV has been an active participant in COASAS, albeit with deeply conflicting feelings which have emerged in an internal debate about the identity of the post-reform *Comisión*. CNDAV members Javier Taks and Verónica Iglesias of Casa Bertolt Brecht describe this debate as centering on whether CNDAV should participate in an “institutionalized space...from above,” such as COASAS, or regain its identity as an “autonomous organization” which fosters participation from below. The danger of engaging in what Iglesias calls “democratic participation” from above, as in COASAS, is that this “runs the risk of focusing on a networking model proposed by the Government...where decision-making depends on political will and the position of other actors.”⁵⁸² She compares this kind of participation to the World Bank’s use of multistakeholder platforms, which she sees as being coopted by transnational corporations and multilateral lending institutions.

At the same time, Iglesias and Taks acknowledge that CNDAV has lost its identity as a grassroots movement in the post-reform period, with the result that “autonomous participation” from below has languished. Taks points out that while it

⁵⁸⁰ *Constitución de La República*, Article 47. Author’s translation.

⁵⁸¹ Interview 1.

⁵⁸² Iglesias. July 2008.

still may be said that a “water social movement” exists in Uruguay, after the 2004 victory many of the CNDAV member organizations withdrew from the coalition, leaving a core of activists focused on activities in Montevideo, while grassroots committees in other parts of the country disappeared.⁵⁸³ Iglesias argues that CNDAV has focused “much effort and time on international meetings and international coordination,” at the expense of building a participatory grassroots movement at home.⁵⁸⁴ There have been efforts to renew participation at the local level, especially around discussions of water resources, such as the Guaraní aquifer, but Iglesias writes that these efforts have been perceived by local actors as not much more than information dissemination.

Taks points out that the debate within CNDAV is also a product of mixed directions within the FA-EP center-left Government. He credits DINASA for showing “clear intentions to follow the principles defended by the water movement,” but accuses the Ministry of Economy and Finance, headed by Astori, of promoting market-friendly policies such as outsourcing in the water sector, and accuses him of leaving water services open to negotiation in bilateral FTAs. FFOSE’s Marquisio is particularly adamant in laying the blame for slow progress in implementing the CR at the doorstep of the FA-EP. She states that the CNDAV is actually in a worse position in the post-Reform period because it’s confronting a government that’s not only maintaining the neoliberal model, but has in certain respects deepened it, through approval of environmentally-controversial “mega-projects” such as the Botnia

⁵⁸³ Taks 2008, 21.

⁵⁸⁴ Iglesias. July 2008, 55.

cellulose pulp mill on the Uruguay River, and by approving the U.S.-Uruguay BIT.⁵⁸⁵ In Marquisio's view the "progressive Government has actually demobilized the social movement, because mobilization is interpreted as an attack on [trade union and social movement] leaders in the Government."⁵⁸⁶ Marquisio says almost nothing, however, about what FFOSE is doing to increase citizen participation in WSS delivery in accordance with the constitutional amendment, either through the CNDAV or through its seat on COASAS (where it represents the national trade union federation, PIT-CNT). Despite her espoused view that regulation should not equate to "further bureaucratization of the state, but the opening for social control and citizen participation in the planning, management and control of national water and sanitation policies," none of the extensive publications by various members of CNDAV, including FFOSE and REDES, have included any specific, concrete proposals for how this might be carried out in practice.

6.6.2. Multinationals Leave, Multilaterals Stay: The IFIs Adapt to a Post-PSP Environment

The successful CR and the attendant departure of the two multinational private operators in WSS produced no "Humpty Dumpty" effect with respect to continual lending by the IFIs. On the contrary, the IFIs showed maximum flexibility in adjusting loan agreements and conditions to meet the new constraints of having to work exclusively with the public sector. Within two months of assuming power, the new FA-EP Government cancelled one of the two 2003 World Bank SALs. As a

⁵⁸⁵ Marquisio 2006, 122-123.

⁵⁸⁶ Bacchetta, Victor. February 8, 2008. Interview with Adriana Marquisio. "Water, Development, and National Sovereignty." Originally published in *Brecha*, <http://www.guayubira.org.uy/english/Marquisio.html> (August 7, 2008).

Bank Task Manager told me, the GOU was able to do so because economic conditions had improved since 2003, and one of the SALs had “tough conditionality” and financing terms that the GOU did not like or now need.⁵⁸⁷ The cancelled SAL was cross-linked, in terms of conditionality, with the *Public Services and Social Sectors SAL* which required PSP-related reforms in the WSS sector. To address the reality of the constitutional reform, the new Government requested a restructuring of the *Public Services SAL*. It submitted a “Revised Letter of Development Policy” (which sets out the objectives, policies and measures it commits to) as part of the World Bank’s amended loan agreement for release of the second tranche. The second tranche disbursement was reduced from \$50 million to \$40 million, and the third tranche of this SAL was cancelled. In the amended loan agreement the Bank states:

The amendments place those [original SAL] objectives within a new external and domestic environment in which the current government has to address public services and infrastructure investment requirements, particularly, legislative restrictions on private sector participation and a strong consensus of public opinion in favor of a greater role for the public sector. As a consequence, program objectives could take longer to achieve than was originally envisaged.⁵⁸⁸

Nonetheless, the Bank credits the GOU with having already made significant progress towards implementing the goals of the original 2003 SAL. It cites URSEA’s work preparing for the implementation of regulatory accounting in the WSS sector, and regular publication by OSE and URSEA of performance indicators and data on water and service quality. The amended loan removed prior conditions related to promulgating a law establishing a new legal and regulatory framework for WSS

⁵⁸⁷ Interview 1. The cancelled SAL was the so-named “Special SAL,” which was targeted at improving efficiency in the health and education sectors.

⁵⁸⁸ World Bank. December 15, 2006.

which was to shift authority from OSE to the executive branch. The new FA-EP Government was instead committing to develop a new WSS regulatory framework as a medium-term objective in consultation with civil society through COASAS, and to “prepare in a participatory manner” a National Plan for Potable Water and Sanitation. The amended loan also cancelled the condition related to OSE awarding a performance-based contract to a private operator for management of the UFW program in Montevideo, since the CR rendered this type of arrangement illegal. Instead, OSE committed to developing and implementing new strategies for reducing UFW and increasing revenues through a new unit established under the OSE MSRP (APL-1), and to further other forms of “institutional renewal” to be supported by a new APL- 2 from the Bank.⁵⁸⁹ The World Bank task manager for the country whom I interviewed was in fact quite impressed with the new Government’s commitment to the WSS sector, as I note below.⁵⁹⁰

In late 2007, the Bank prepared two reports known as “Implementation Completion and Results Reports” (ICRs) for respectively, the closing of the first phase of the \$27 million OSE MSRP loan (APL-1), and the closing of the amended *Public Services SAL* discussed above.⁵⁹¹ These ICRs, which together assess outcomes for most of the same targeted reforms in the WSS sector, provide startlingly candid insights into the World Bank’s reaction to the constitutional reform and the manner in which it affected these Bank operations. It is worth quoting extensively from these documents. In the September 2007 ICR for the OSE MSRP, the Bank places the CR in the context of a “global paradigm shift” against PSP:

⁵⁸⁹ World Bank. December 15, 2006, 16.

⁵⁹⁰ Interview 1.

⁵⁹¹ World Bank. September 20, 2007; World Bank. December 19, 2007.

PSP in the water and sanitation sector notoriously failed to gain backing from politicians and the general public...Although a second concession was successfully awarded in August 2000 in Maldonado, a powerful anti-privatization backlash had started sweeping the globe. Given the magnitude of the global paradigm shift, it is *unlikely any measures implemented by the project could have prevented the backlash against PSP and the subsequent 2004 Constitutional Amendment*, (emphasis mine) particularly in Uruguay where public utilities enjoy extensive support based on a satisfactory record of delivering services...On the other hand...Project design should be commended for not relying solely on high-risk PSP as a means for achieving institutional change...[it] included a range of alternative strategies such as sector unbundling and regulation, decentralization, and internal and external benchmarking, which together proved an effective contingency plan once PSP was made unconstitutional.⁵⁹²

Although the Bank here states that there was little it could have done to prevent the backlash against PSP in Uruguay, and congratulates itself on a loan which included a diversified menu of options for reforming the WSS sector, a more nuanced picture emerges elsewhere in this same ICR and in the December 2007 ICR for the *Public Services SAL*. In the ICR for the OSE MSRP the Bank states:

The World Bank's push for increasing competitiveness in the WSS sector through private sector participation—under both the APL-1 and the *Public Services and Social Sector Structural Adjustment Loan*—may have provided an unintended impetus for the national backlash against private sector participation in the sector. The granting of a management contract for the Montevideo water supply system to reduce UFW, which was specifically promoted via the SAL, but also supported by the APL-1, was deeply contested by OSE's trade unions. The trade union's opposition proved one of the original catalysts of the 2004 national public referendum...⁵⁹³

While FFOSE was indeed one of the original catalysts of the CR campaign, the IMF and SAL conditions associated with contracting out for reducing UFW in Montevideo could hardly be described as the key motivating factor behind the campaign, nor, as I

⁵⁹² World Bank. September 20, 2007, 8.

⁵⁹³ World Bank. September 20, 2007, 21.

have argued, was FFOSE the dominant agent which catalyzed the campaign. But with respect to the larger point—whether or not the Bank was implicated in the unraveling of the central PSP axis of its loans, the ICR for the *Public Services SAL* (whose outcome was rated “moderately unsatisfactory”) was even more self-reflectively critical:

The design of the Structural Adjustment Loan (SAL) raises a fundamental question about whether far-reaching structural reforms can best be achieved at a time of deep crisis when conditionality can easily be perceived as an attempt to use external financing as a way to force through policy reforms without popular support. This may be particularly true in consensus driven countries like Uruguay. Sector reforms should be based on a realistic assessment of the political and economic context and the willingness of the people and the government to accept the reform...Discussions with officials of the current and previous administrations during program implementation showed that a program involving policy changes with many different objectives...involves regulatory rules and an institutional framework that can only work with popular support. The Bank should understand and acknowledge cultural realities and, if needed, accept slowing down some reforms and relaxing some measures and controls.⁵⁹⁴

There are further contradictions to be found in the Bank’s description of the “alternative strategies” and risk mitigation measures which it claims vindicated the original design of the OSE MSRP loan. With respect to “unbundling,” for example, a term the Bank often uses to denote measures which increase competition “for the market,” such as the creation of an independent regulator, the Bank claims that its loans sparked not only the creation of the regulator URSEA, but also the creation of the policymaking body DINASA, which occurred under the new FA-EP Government. The creation of DINASA, it implies, comported with Bank recommendations to separate out the policymaking function which was formerly subsumed under OSE.

⁵⁹⁴ World Bank. December 19, 2007, Abstract.

However, the record does not support the Bank's view about the provenance of DINASA, even though the new Government no doubt concurred that OSE's various conflicting roles should be divested to other independent agencies. As discussed in the previous section, the creation of DINASA and COASAS followed from the new provisions of the amended Article 47 of the Constitution, which laid out specific social and environmental requirements for a national water and sanitation policy.⁵⁹⁵ Underscoring the CR's impetus in its creation, when the new Director of DINASA assumed his post on January 31, 2006, he cited compliance with Article 47 of the Constitution as the principal responsibility that the new agency had to undertake. Second to this was establishing coordination between the executive and legislative branches—hardly what the World Bank had in mind for the sector reform law that it advocated in the Public Services SAL and the OSE MSRP loans.⁵⁹⁶ In an amusing twist, the Bank was now even claiming credit for DINASA's role in “providing a space for policy dialogue, particularly with the emerging new sector actors, and increasing transparency and information sharing.”⁵⁹⁷ Further, CNDAV activists had for the several years of their campaign, been calling for the rationalization of the multiplicity of state entities that had overlapping jurisdiction over WSS and the management of water resources. This was a central goal of the law creating DINASA, along with the mandate for public participation through COASAS.

⁵⁹⁵ Santos. January 2006; Santos and Villareal. July 2006.

⁵⁹⁶ La Republica (Uruguay). February 1, 2006. “El Ingeniero Genta Asumio Como Primer Director: La Dirección Nacional de Agua y Saneamiento está en Marcha.” <http://www.larepublica.com.uy/comunidad/201451-la-direccion-nacional-de-agua-y-saneamiento-esta-en-marcha> (January 13, 2009).

⁵⁹⁷ World Bank. September 20, 2007, 21.

Another centerpiece of the OSE MSRP loan pushed by the Bank was the “demand-driven” strategy for increasing connections to sewerage networks in Uruguay’s urban interior, a strategy the Bank was promoting as based on market principles (determined by “willingness-to-pay”), complementary to PSP, and full-cost recovery. This strategy turned out rather differently than the Bank expected, with connection rates of only 44 percent at the close of APL-1, versus the original 80 percent target. The Bank had identified the risk of non-connection by the beneficiary population as negligible. The Bank comments that the lower than-expected connection rate has also been observed in other countries, “for reasons not entirely clear.” However, the Bank did discover an important reason for this phenomenon in Uruguay: it had failed to factor in the additional, and it turns out, preponderant costs of installing internal plumbing that would be borne by individuals--who otherwise demonstrated a great desire to connect to the network. Moreover, the drawbacks of the Bank’s demand-driven sewerage approach had what the Bank describes as an “unintended impact,” which induced the new FA-EP Government to:

...take the lead in the Region, and among middle income countries, to review appropriate sanitation standards. This was partially based on the APL-1’s experience of delivering demand-driven sewerage, which highlighted some of the common drawbacks of this approach (high per capita costs, low demand/ability of households to connect). The administration is overtly questioning the validity of the ‘universal sewerage’ model of highly developed countries, acknowledging that alternative sanitation options (such as cheaper private septic tanks) may be appropriate in some cases, particularly for small urban or low-density populations, where the per-capita public expenditure required for public sewerage systems and treatment plants is often prohibitively high.⁵⁹⁸

⁵⁹⁸ World Bank. September 20, 2007, 22.

This provides a telling illustration of the Government rebuffing the Bank on the grounds that it preferred a more cost-effective solution than the Bank was advocating! It further illustrates that the Bank's vaunted "demand driven" approach was hardly well thought out by Bank WSS experts, who failed to understand the real connection costs that households would bear.

Yet another surprise which emerges in the ICR for the OSE MSRP is the fact that it was the neoliberal Batlle Government, with whom the Bank negotiated the loan, which "had limited ownership of the project and lacked commitment to institutional change," despite the fact that the "Project approval stage was deliberately and effectively timed with a new Presidential election (in 2000) in a bid to secure a greater commitment to the project."⁵⁹⁹ In another droll twist, it was the left-wing FA-EP administration that the Bank credits with the commitment to institutional reform which finally aligned the project goals with OSE management and a new sector vision. A World Bank Task Manager affirmed this to me in an interview, praising MVOTMA and DINASA for tackling all the non-PSP regulatory conditions that were included in the Public Services SAL, and for the "very competent" people selected to head up DINASA and URSEA. "The FA-EP has a great opportunity to do things in this sector," he said, "and are taking it very seriously...José Mujica (the ex-Tupamaro), included. He wants to improve the country."⁶⁰⁰

In conclusion, neither the World Bank nor the IDB have been deterred by the passage of the 2004 Constitutional Reform. In fact, the Bank praised OSE for fulfilling several conditions in the APL-1 which improved operational and financial

⁵⁹⁹ World Bank. September 20, 2007, 8.

⁶⁰⁰ Interview 1.

efficiency, such as internal and external benchmarking (including publishing performance indicators), new programs for UFW reduction, and institutionally and physically decentralizing the Maldonado unit it re-absorbed from URAGUA.

Notably, the Bank concludes from this that:

These initial experiences suggest that there exist a broad range of external and internal incentives to promote efficiency gains and enhanced competition, *which can be used to complement, or instead of, PSP.*⁶⁰¹ (my emphasis)

In Uruguay, at least, the Multilateral Development Banks have proved to be very adaptable partners—possibly out of self-interest in continued lending relationships. In June 2007, the World Bank approved \$50 million in new lending for the Second Phase of the OSE Modernization and Systems Rehabilitation Program (APL-2). The loan will support OSE’s strategy for continued improvement in client responsiveness and efficiency, will test a series of innovative initiatives to reduce UFW, and will complete sewerage expansion works in at least five interior cities.⁶⁰² In December 2008, the IDB announced an \$80 million credit to OSE for improving sanitation and water quality in Ciudad de la Costa, in the Metropolitan Montevideo area.⁶⁰³

6.7. Conclusion

The success of Uruguayan water activists in changing the country’s constitution has functioned as a real and symbolic victory for the transnational “water justice movement.” It has had a demonstration effect on, and gave impetus to, other organizing efforts around the world to engage in constitutional engineering-- most

⁶⁰¹ World Bank. September 20, 2007, 27.

⁶⁰² World Bank. June 28, 2007.

⁶⁰³ Inter-American Development Bank. December 12, 2008. “Uruguay to improve sanitation and water quality in coastal area.” Press Release.
<http://www.iadb.org/news/detail.cfm?Language=English&id=4976> (January 19, 2009).

prominently in Colombia, but also in Mexico, Ecuador, El Salvador, Ghana, and Nigeria, to greater or lesser degrees. “Blue October” memorializes the Uruguayan victory through an annual call to global water activists to generate, publicize, and share local activities against privatization with transnational networks during that month. In its press release for the third commemoration of Blue October in Uruguay in 2008, CNDAV characterized the constitutional reform as having “transformed the country into an international referent...[where] currently, more than 40 countries are engaged in activities to change legislation along the same lines as the Uruguay experience.”⁶⁰⁴ While the number of countries may be exaggerated, there is little doubt that this small state generated a global ripple effect.

The Uruguayan case encapsulates the bi-directional transmission of learning from domestic to international movements and back. CNDAV drew early strength from solidaristic networking with other transnational water and IFI-focused activists, such as through the World Social Forums in Brazil, and through domestic linkages with international networks (e.g., Friends of the Earth) opposing FTAs and BITs. One of the motivating factors behind the plebiscite campaign was concern over the risks faced by sovereign states under BITs, something the Uruguayan activists became aware of by engagement in regional and international “spaces.” CNDAV participated in the founding of Red VIDA, and has continued to play a prominent role in that organization. Southern CSO and NGO solidarity with CNDAV was manifest in the Uruguayan Social Forum in 2004, with the participation of organizations from Argentina, Bolivia, Brazil, Chile, and Paraguay. Northern NGOs and foundations,

⁶⁰⁴ CNDAV and REDES-AT. October 28, 2008. “En un nuevo Octubre Azul:El cumplimiento total de la reforma es imprescindible.” *Prensa*. <http://www.redes.org.uy/2008/10/28/en-un-nuevo-octubre-azul-el-cumplimiento-total-de-la-reforma-es-imprescindible/> (November 19, 2008).

including Public Citizen, the Council of Canadians, and Heinrich Böll, provided financial and public relations support, and greased the wheels of international solidarity towards the campaign. Before the elections in 2004, more than 100 organizations from 36 countries signed a declaration of support. In the period since the CR victory, CNDV has played an active role in the 2006 alternative water forum in Mexico City; has been active in the regional Inter-american Platform on Human Rights, Democracy and Development; and has participated in international meetings in Europe and Central America, and in the creation of the African Water Network in 2007.

As one observer notes however, “Despite Uruguay’s status as a beacon for the movement, many groups say that making water a constitutional human right is not enough... and none of the campaign organizers believe a constitutional amendment is a silver bullet for their country’s water woes.”⁶⁰⁵ The real value, he adds, is in encouraging citizen participation and holding governments accountable. And therein lies the double-edged sword for CNDV and the long-term success of the Constitutional amendment. The cultivation of its bright, international profile appears to have exacted a price on CNDV’s own *raison d’être* and the stated objectives of the CR. Organizers of the CR have admitted that the success of their initiative has had a greater impact internationally than nationally.⁶⁰⁶ Grassroots participation has withered and the *Comisión* has so far not devised a successful program to reinvigorate it. Nor has it put forth (at least in the public realm) any concrete proposals for “operationalizing” the mandate of the reform measure: integrating citizen input and

⁶⁰⁵ Beeson, Bart. March 31, 2008. “New Wave of Water Movements in Latin America.” *NACLA Online News*. <http://nacla.org/node/4560> (April 8, 2008)

⁶⁰⁶ Beeson. March 31, 2008.

participation into “planning, management and control” of WSS provision and the protection and conservation of water resources. The CNDAV is engaged in an internal debate over a variety of issues, including the desirability/efficacy of participating in the “institutionalized space” of COASAS, and what posture to adopt towards decentralization and regulation. The positions that FFOSE has articulated against decentralization and regulation lend the appearance of the trade union taking a self-interested, protectionist stance, rather than a stand which takes the broader public interest into account. Although there are reasons to be chary of the Bank’s indiscriminate push for decentralization when packaged with PSP (because as critics have argued, this may be a thinly-veiled strategy for pushing fiscally-strapped municipalities into the arms of private providers), this is unlikely to be a concern in a country where PSP is now illegal. Javier Taks alludes to the fact that there is disagreement within CNDAV about this issue, pointing out that the decentralization of OSE’s management in Maldonado through a “public-public partnership” (between the utility and the municipality), may be the most effective way to increase transparency and accountability, and reduce UFW and costs. Most prominently, there appears to be virtually no discussion in CNDAV literature of how to address longstanding and continued problems in the WSS sector, e.g., lack of sewerage connections for a large percentage of the interior’s population, leaks and UFW which raise costs, and utility tariffs that are among the highest in Latin America. And while criticism has been leveled against the “multistakeholder” attributes of COASAS—where CNDAV runs the risk of its proposals being rejected or diluted, this would not seem to preclude the *Comisión* from at least floating its own set of ideas. In point of

fact, there has been more discussion of specific options for public participation in the Social Evaluation component of the World Bank's MSRP loan to OSE, which discussed the strengths and weaknesses of some of the existing partnership arrangements between OSE, municipal governments, and community organizations throughout the country—especially in the urban interior. None of CNDAV's literature has referenced these types of arrangements, actual or potential.

In a strange irony, it appears to be the World Bank and IDB which have been more responsive to the constitutional reform than the activists. Whether reluctantly or not, they have moved rather rapidly to adapt their program lending to the new reality of working exclusively with the public sector. On the flip side, neither the CNDAV or FFOSE has complained about their continued operations in the country, which in actuality are likely a critical source of finance for improvements in WSS provision. Its small size, relatively high income, political culture, and highly-educated population, make Uruguay an ideal laboratory for a program and/or strategy that seeks to implement the provisions of the constitutional amendment. The CNDAV could help to bolster the credibility of the water justice movement by turning its attention to this task.

Chapter 7: Conclusion

This dissertation has analyzed the uneven and contradictory process of agenda transformation in the World Bank with respect to PSP in urban water and sanitation in developing countries. It has focused in particular on the role of transnational activist networks in influencing agenda change and the ways in which that change has in turn transformed TANs and domestic activist coalitions. I examine these processes at the international levels of Bank policymaking and activist networking, and through the case study of Uruguay.

The Bank's turn to PSP in the 1990s reflected its larger neoliberal development agenda, an extension of the principles and policies underlying the so-called "Washington Consensus." Several intellectual trends and policy initiatives in the 1980s and 1990s supported arguments advanced by proponents of water sector privatization. The 1992 "Dublin Statement" was a turning point in affirming water as an economic good as well as a social/merit good. The "new public management" school of thought provided theoretical and ideological support for advocates of privatization, and underpinned the Bank's conceptual arguments for PSP in a natural monopoly sector. Changes in the global political economy, such as trade and financial liberalization, the push toward privatization, and deregulation enabled TNCs' investments in infrastructure sectors during the 1990s.

But turbulence in global markets and inherent tensions in the globalization process constrained PSP in the 2000s, as financial destabilization buffeted numerous developing countries. TNCs' interest in the sector dwindled due to a realization that profit-making opportunities were lower than expected and risks were significantly

higher. Disaffected publics felt deceived by infrastructure privatizations, which became associated with higher utility rates, higher profits for foreign companies, and corruption. Neoliberal politicians and governments fell victim to this disaffection and market reform fatigue, especially in Latin America (the recipient of a major share of PSP in infrastructure), where a wave of center-left governments swept into office during the 2000s. Client states that had suffered politically from the uptick in loans with PSP conditionality reduced their demand for such loans.

Popular disillusionment with the negative effects of market liberalization and globalization. bolstered social movement mobilization by TANs and domestic activist coalitions. Activists and TANs which had criticized structural adjustment policies in the 1980s and 1990s migrated to anti-privatization and water justice networks in the 2000s. As I discussed in Chapter Five, TANs deployed frames against water privatization that combined the themes of human rights and access to essential services with criticisms of the IFIs' neoliberal policies. Activist mobilization increased the risk profile of investments for TNCs and put pressure on politicians and governments to resist PSP loan conditions. TANs put the Bank in an uncomfortable global spotlight, forced it to recalibrate the weights assigned to water as a public versus economic good, empowered both civil society and client states disaffected with PSP, and compelled the Bank to reevaluate PSP's effects on poverty reduction.

The Bank has produced research that reflected experiential learning and that has overturned at least one previous generation of thinking about PSP. Knowledge cumulation and discrete learning by the Bank has been a product of unmet

expectations from private sector investors, failures in project performance and development outcomes, and political resistance to PSP. The flight of WSS service TNCs forced the Bank back to the drawing board to consider alternative sources of investment finance, which pulled it back into the domain of public finance. Experiential learning occurred because of a combination of external and internal influences impossible to segregate or assign specific weights. One of the contributions I make in this dissertation is to show, however, that the Bank's learning in this issue area has been only partial and contradictory. This is a result of unresolved, and perhaps irresolvable, tensions between the Bank's structural and functional imperatives as a development *bank* and knowledge broker, and its intellectual culture, which reinforces the dominant discourse of mainstream economics and neoliberalism. Organizational power asymmetries (e.g., the differential bureaucratic influence of experts versus task team leaders and country directors) have also militated against sustained learning.

Tensions between knowledge production and ideology were evident in my analysis of Bank literature and confirmed by interviews with Bank staff. These revealed discordance between the content of key Bank documents and knowledge outputs, and policy recommendations which followed thereon. Conclusions and policy recommendations reproduce the dominant neoliberal paradigm, confirming that the Bank engages in "paradigm maintenance." Despite the intellectual recognition that both private-sector and public-sector utilities' performance is dependent on well-functioning enabling institutions, the Bank continues to revert to ideological recalcitrance in favoring the private sector. It has refused to put into

practice the agnosticism that it has rhetorically professed for the last six years. At the same time, as was demonstrated by the case study of Uruguay, the Bank's profit-making imperative can trump ideology in situations where the Bank won't be left with "egg on its face." This pragmatism is consonant with the disbursement and approval culture, and reflects the bureaucratic influence wielded by the operations and lending side of the Bank.

One of the strengths of TANs in this issue area has been their horizontal and democratic engagement with domestic campaigns, which have driven agenda change internationally and nationally. As TANs lost a framing target when TNCs retreated and the IFIs' WSS project lending declined, TANs began to reorient their activities and frames toward articulating alternatives to PSP. However, the focus on attaining an ideal-type of democratic participation, present in Uruguay's CNDAV and in some international TANs, has diverted attention away from the fundamental issues of improving access and services for the poor. As a result, alternatives to PSP that are deemed acceptable are at times narrowed to a degree that suggests continued ideological rigidity. This leads to the impression that the "search for the perfect may be enemy of the good."

7.1. Implications of the Dissertation's Findings for Research and Policy

Implications for Scholarship

The case of PSP in water presented in this dissertation validates Weaver's and Miller-Adam's theoretical framework for analyzing the Bank not only through the traditional international relations lens of principal-agent dynamics, but also through

the lens of its internal bureaucratic culture. With respect to external influences on the Bank, scholarly literature has often rightly emphasized the disproportionate influence of the Bank's largest donors (in particular, the United States) on Bank ideology and agenda-setting. However, this study showed that client countries and private actors, both TNCs and TANs, were more influential than donor states in transforming the Bank's PSP agenda during the 2000s. Accelerated changes in the global political economy altered the balance of power between these actors and the Bank. Agenda setting and agenda transformation at the Bank cannot therefore be viewed as reflecting "hegemonic" donor preferences; a constellation of external actors and forces can undercut those preferences.

Analogously, with respect to the Bank's internal organizational culture, this study confirms that the Bank cannot be viewed as a bureaucratic monolith. The operations side of the Bank can be in conflict with the knowledge production side of the Bank, as other scholars have pointed out, but the knowledge production side of the Bank can also be in conflict with itself. Knowledge production runs headlong into ideology and vice versa. The case of agenda change in PSP confirms that the Bank engages in "paradigm maintenance," but it also points to a learning process within the Bank, around, for example, articles of faith such as full-cost recovery and a general disdain for subsidies. The acquisition of experiential knowledge, and the belated acknowledgement that the effects of PSP on the poor could not be quantified, contributed to the Bank's retreat from its original orthodoxy. Learning thus "pushed back" at the dominant paradigm, albeit only up to a certain point. Future research might explore the issues and conditions which create space between ideology and

learning (both internal and external), how much space can be created, and how that space is navigated within the Bank.

With respect to the literature on TANs, this study has affirmed the centrality of domestic politics and mobilization to TANs' influence and efficacy. "Trans-mestic" activism is a good typological moniker for describing the water justice movement.⁶⁰⁷ The dissertation demonstrated that domestic activist coalitions, with the support of TANs, can influence core neoliberal tenets of Bank policy. These neoliberal tenets, or elements of structural adjustment policies, were previously considered to be uncondusive to mobilization because of a long and complex causal chain. Mobilization was in this case facilitated by strategic framing, linking the core neoliberal tenet of privatization to a basic need with great symbolic resonance. Typical modalities of NGO influence on the Bank, such as insider-outsider alliances and donor pressure, were respectively, nonexistent or minimal. The Uruguay case illustrates how TANs are reinvigorated and energized by the demonstration effect of a successful domestic campaign, and seek to replicate that success elsewhere. Future research might focus on what TANs learn from "trans-mestic" political alliances based on strong domestic political coalitions, and how trans-mestic activism alters political opportunity structures and targeting.

Implications for Bank Policy

Two of the critical unmet challenges facing the Bank in water supply and sanitation are building regulatory capacity in developing countries, and ensuring that

⁶⁰⁷ I thank Jim Riker for introducing me to this phrase.

improvements in WSS benefit the poor. I have noted throughout the dissertation contradictions between the Bank's acknowledgement of the critical role of institutions and regulation, and its practice in this area. In the wake of the private sector's unwillingness to invest in WSS, the Bank's prescribed ratio of government versus private sector roles in expanding WSS services to the poor has effectively reverted back to the pre-PSP era. The public sector again has the lion's share of responsibility for being financier, regulator, and redistributor in the WSS sector. Yet all the literature confirms that neither public nor private WSS providers can meet efficiency or equity goals without effective institutional and regulatory infrastructure in place. The Bank's Independent Evaluation Group has stated that "support for institutional reform and capacity building has had limited success in the sector."⁶⁰⁸ The Bank has funded these activities frequently, but the IEG notes they have been "less than fully effective and weak institutions have often been responsible for project shortcomings."⁶⁰⁹ Economist and privatization expert Gerard Roland offered a pessimistic assessment of the prospects for institution building in poorer developing countries (see Chapter Two). He noted that privatization or PSP becomes "increasingly complex in more monopolistic environments where good regulation is easier said than done...Calling for better regulation might be illusory because it would require a major institutional overhaul that is not in the cards in the immediate future."⁶¹⁰ As noted, regulation is necessary for both public and private utilities, though the challenges are greater for utilities with PSP, since these involve

⁶⁰⁸ Independent Evaluation Group 2010, xiv.

⁶⁰⁹ Independent Evaluation Group 2010, xiv.

⁶¹⁰ Roland 2008, 17-18.

informational asymmetries between often weak states and experienced private operators.

This case raises the question of how regulatory capacity building can be better supported by the Bank and other development finance institutions. If there a structural contradiction between the profit-making role of the Bank and the patient capital needed for building regulatory/institutional capacity, how might this be addressed? To what extent does corruption impede the development of this capacity? The IEG's evaluation does not elaborate on the reasons for weak performance in the WSS-related institution-building activities that the Bank has supported; this is an area that needs to be fully and transparently explored. The Bank often focuses on a circumscribed definition of regulation—one that is primarily focused on investors' concerns and secondarily on users' concerns. Absent is a focus on truly pro-poor regulation, i.e., regulation that addresses equity and distributional issues as much as the protection of property and contract rights. If the Bank is serious about improving WSS delivery to the poor, it must incorporate equity and distributional criteria in its policy and project lending. It must also produce measurable and independently verifiable results of improvements in WSS service delivery to the poor, something it has yet to do.

Implications for TANs and Water Justice Activists

A Bank official I quoted earlier stated to me that “advocacy is cheaper than building toilets.” An internationally prominent water activist in the U.K. analogously expressed the view that the water justice movement's credibility and influence would

have been greater (and would have had an earlier impact on the DFID) had it offered concrete alternatives to PSP. Just as with the pro-privatization obsession of the Bank, the anti-privatization obsession of some activists has deflected attention and energy from the real concern: getting water and sanitation to poor people. This is not to say that water activists should have tempered their critique of privatization and PSP. Rather, that critique should have been accompanied earlier on by proposed alternatives. As I discuss in Chapter Five, some water justice activists did turn their focus to this in the middle of the last decade. TANs have linked with water professionals in the public sector of developing countries as they have championed public-public partnerships and alternative forms of service delivery. TANs could further bolster their effectiveness and credibility by linking, where feasible, to experts who can provide technical support for improving WSS services and designing alternative supply models.

The Bank official who commented on activists and toilets also acknowledged that the Bank needs to pay more attention to improving the performance of public utilities. The Bank has no choice now but to revisit the public utility model of WSS delivery. Further, both the Marin and Gassner studies explicitly acknowledge that labor force reductions in utilities with PSP (and presumably also public utilities that wish to rationalize their labor force) must address displacement of redundant workers and their attendant loss of public sector employment benefits. These realities provide openings for activists with bona fides and concrete suggestions to influence the future direction of the Bank's work with public utilities.

7.2. Possible Directions for Future Research

1. *Comparison of Water and Sanitation to the Electricity Sector.* Have the limitations and challenges the Bank has confronted in the WSS sector emerged as issues in other infrastructure sectors, particularly those which are also, at least in part, natural monopolies? The electricity/power sector would be a useful case to look at in this regard. It shares some, but not all, of the characteristics of water supply and sanitation. Although electricity does not have the same human rights characteristics or “essential” attributes as WSS with respect to effects on mortality and morbidity, it is a clear marker of development linked to improvement in livelihoods and living conditions. As with WSS, affordability and tariff structures are key social and political concerns. Electricity generation and distribution, but not transmission, have typically been identified as the components of the sector most amenable to privatization. Unlike in WSS, most of the PSP that has occurred in electricity distribution has involved partial or full divestiture.⁶¹¹ Nevertheless, even with the concomitant responsibility for private investment that attends divestiture, the World Bank found low levels of total investment by the private sector, analogous to water. Further, the Bank acknowledges that electricity’s unique economic and technical characteristics make the sector highly vulnerable to the exercise of market power, and regulatory oversight is thus essential. But it also acknowledges that this oversight is hard to come by even in developed countries, as was demonstrated by the crisis in California in 2000 and 2001. The deeper level of private sector involvement in the sector, and the Bank’s very explicit acknowledgement that PSP is vulnerable to

⁶¹¹ Gassner 2009.

monopolistic abuse by private actors, make the electricity sector an interesting comparative case. To the extent that political opposition to electricity privatization has occurred, has it differed because of these characteristics? Specifically, the sector itself might have less symbolic and tactical resonance than water in terms of transnational organizing, but could potentially generate more traction locally if this more-fully privatized sector fails to perform to expectations or engages in visible abuse of monopoly power.

2. Analysis of the Water Dialogues Multistakeholder Process. In Chapter Five I touched on the Water Dialogues multistakeholder process that terminated in 2009. An in-depth analysis of this process would be useful and interesting, particularly with an eye to analyzing the differential impacts of the country-focused dialogues, the role of TANs and domestic civil society organizations in the process, the extent to which tensions around PSP were mitigated between proponents and opponents—and the reasons for this, and any impacts on the development finance institutions. The authors of the final report on the Dialogues noted two opposing tendencies among participants at the conclusion of the process. On the one hand, some participants gained a more “nuanced” understanding of PSP as they recognized that the private sector encompassed a range of actors, including small-scale, community-based providers. Concerns over the challenges of finance and regulation supplanted a more “black and white” oppositional stance. For other participants, the key issues, such as water as an economic good versus human right, were still as sharp and polarized as at the outset of the process. What factors accounted for these differences among participants? Did these correlate with the differences in consensus versus

confrontational process styles among the countries? Did the Water Dialogues process deepen critics' willingness and/or ability to formulate specific alternatives to PSP, or predispose them toward engagement with the opposing side (be it governments or the MDBs)? Follow-up studies in the participant countries would of course be a useful sequel for understanding the longer-term significance of multistakeholder processes.

3. The Role of Public Utilities Going Forward. As I discussed above, the Bank has perforce returned to looking at the role of public utilities in the WSS sector, which again are the main recipients of its lending. How is it approaching this process in the wake of the failure of its PSP agenda? How is this reflected in its project lending and country and sector work? In the research studies I have discussed in this dissertation, the Bank invariably identifies shortcomings in its own work and in expected results—e.g., the lack of data on the poverty impacts of PSP. Going forward, and especially as the MDG target date of 2015 approaches, it would be elucidating to track the extent to which the Bank takes up the challenges it has laid out over the last decade for improving WSS delivery to the poor, and whether/how this alters the balance between learning and pro-market ideology.

Appendix

Common Types of PSP Contracts ⁶¹²

Subcontracting arrangement/service contract: the private party performs specific, time-bound tasks, such as supplying inputs, taking care of planning studies, computing and payroll services or public relations, construction, maintaining assets, installing meters or billing customers, usually in exchange for a fixed fee. In this situation, the private sector bears very little risk and there is very little uncertainty around the expected outputs. In recent years, more and more activities have been outsourced that way to the private sector, including the task of reducing non-revenue water.

Management Contract: a private firm is appointed by the government to provide managerial services, often for a fixed fee. The contract typically requires the private party to manage a utility and provide services to the public for a given period of time. The remuneration of the private operator may be fixed at the outset, in which case the commercial risks of the operation are borne entirely by the public sector, or it may be linked to the performance of the utility, in which case the private operator bears some commercial risk. More and more countries resort to this type of contractual arrangement to facilitate transfer of know-how and to develop greater understanding of the implications of involving the private sector as part of a gradual approach to the private sector participation.

Lease: a written agreement under which a property owner allows a tenant to use the property for a specified period of time and a specified rent. The private-sector operator is responsible for providing the service at its own risk, including operating and maintaining the infrastructure for a given period of time. The operator is not responsible, however, for financing investment such as the replacement of major assets or expansion of the network. If payments from users cover more than the operator's remuneration, the operator is generally supposed to return the difference to the public authorities in order to cover the cost of the investments under the latter's responsibility.

Affermage: only differs from a lease in terms of revenue for the private sector. In both cases, the private operator collects the tariffs and pays, on top of the operation and maintenance costs, a fee to the public sector. But while this fee is fixed in the first case, it is proportional to the volume of water sold in the second case. An affermage contract is currently underway for the provision of urban water in Senegal. A lease was signed in Yerevan, Armenia, in 2006.

Concession: the private operator is also responsible for asset replacement and

⁶¹² Excerpted from: Organization for Economic Cooperation and Development, 2009. *Private Sector Participation in Water Infrastructure: OECD Checklist for Public Action* Box 1.2, p. 19.

network expansion. The level of risk transferred to private sector is therefore higher and compounded by the nature of remuneration of the operator, mainly based on user charges. Concessions were the predominant contractual arrangement adopted in Latin America in the 1990s.

Public limited company: a commercial company is formed but owned by local, provincial and national government. The Dutch Water Supply Act spread the methodology in the water sector of the Netherlands.

Water co-operatives, customers are members of the board, but they are uncommon in large cities. They constitute a common form of rural water provision in Chile.

Full or partial Divestiture: ownership of the existing assets and responsibility for future upkeep and expansion are transferred to the private sector. Very few countries have adopted complete divestiture with the notable exceptions of Chile and the UK.

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Confidential Interviews

The following interviews were conducted with the promise of anonymity. The citations provide as much information as possible about the interview subjects who are cited by corresponding number in footnotes to the narrative text.

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